pension reform

a report by the
national council of welfare

february 1990

Canada

PENSION REFORM

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TABLE OF CONTENTS

INTRODUCTION

Hopes were high as people from across the country arrived in Ottawa at the end of March 1981 for the National Pensions Conference. The conference was called by the federal government and opened by Prime Minister Pierre Elliott Trudeau with the promise of major pension reform during his government's mandate.

Sadly, that promise was not fulfilled.

Pension reform was also embraced by the present government when it came into office. Some worthwhile changes have been enacted, but they fall short of what most reformers were looking for.

What dashed the hopes of the reformers? It was partly the reluctance of federal and provincial politicians, their advisers and certain business groups to accept the need for sweeping change. Pension reform was also the victim of deteriorating economic conditions that culminated in the recession of 1981 and 1982, the worst slump in the economy since the Great Depression half a century earlier.

Inflation had been a worry throughout much of the 'seventies. Interest rates, including mortgage rates and consumer lending rates, soared to shocking levels in the fall of 1979. By the time of the National Pensions Conference, the beginning of the recession was only months away. Once the extent of the damage became evident, governments put pension reform aside and turned their attention to more immediate economic concerns.

There were indeed some improvements in federal income security programs and pension plans in the years that followed.

However, most of the improvements were modest, and none of them addressed the major problems that were known to all the experts.

In 1984, for example, there were increases in the federal Guaranteed Income Supplement for single people in need totalling $50 a month. The extra money was welcome, but the new rate still left many single seniors well below the poverty line.

A package of improvements in the Canada Pension Plan was approved by Ottawa and the provinces and went into effect on January 1, 1987. Some of these changes simply brought the Canada Pension Plan in line with previous improvements in the Quebec Pension Plan. Across-the-board increases in retirement benefits were not seriously considered.

The federal and provincial governments also agreed to improve the standards required of occupational pension plans. Unfortunately, governments showed little interest in increasing the proportion of workers who belong to occupational plans. And Ontario was the only government even remotely interested in protecting benefits from increases in the cost of living.

The National Council of Welfare described Canada's retirement income system and its major deficiencies in a report entitled A Pension Primer that was published in September 1989. This report goes one step further and proposes specific recommendations to correct those deficiencies.

The first chapter outlines proposed improvements in federal income security benefits for people who have already retired. Among the recommendations it makes are increases in benefits for low-income Canadians over the age of 65 and a broader program of benefits that would cover all people in need aged 60 through 64.

The second chapter proposes expansion of the Canada and Quebec Pension Plans. The National Council of Welfare has long considered more generous benefits from the two plans as the single most important element in pension reform and the key to a better future for people who will be retiring in years to come.

The next chapter deals with occupational pension plans and registered retirement savings plans. Among other things, it makes the case for more reasonable limits on the tax breaks that go to people who contribute to pension plans and RRSPs.

The final chapter reveals the "bottom lines" of pension reform. It provides detailed estimates of the cost of our proposals to the federal government and compares those costs with additional costs that Ottawa could face even if it turns its back on sweeping improvements in the system. As well, it outlines in detail the higher contributions that workers and employers could expect to pay to the Canada and Quebec Pension Plans in return for higher benefits from the plans.

Beyond its specific recommendations, this report is another reminder that the need for pension reform has not disappeared. Few people remember the National Pensions Conference, but the problems that brought everyone together that long weekend nearly a decade ago are still with us today.

INCOME SECURITY FOR TODAY'S SENIORS

In an ideal world, Canadians would start planning for retirement early in their working lives by putting away a bit of money year after year. In the real world, putting away money for retirement is easier said than done.

When people reach the age of retirement and find themselves without adequate incomes, governments try to make up some of the shortfall. The current generation of seniors is especially fortunate because of income security programs that have been started since 1967.

The federal government now provides Guaranteed Income Supplements to low-income seniors 65 and older and Spouse's Allowances to select classes of needy people aged 60 through 64. Most provincial and territorial governments have income supplements of their own to ease the financial burden on older people in need.

While all these programs are good as far as they go, the National Council of Welfare believes the time has come not only for further increases in benefits but also for changes in the way benefits are calculated to give special help to the poorest of the poor.

This chapter makes the case for improvements in the Guaranteed Income Supplement and Spouse's Allowance and for a new federal government program of benefits equivalent to the Spouse's Allowance for <u>all</u> poor people aged 60 through 64. It also restates the Council's opposition to the "clawback" of the Old

Age Security pension announced by the federal government in its 1989 budget speech, and it suggests changes in the current residence requirements for the old age pension.

More Help For Those Who Need It Most

The federal government started the Guaranteed Income Supplement program in 1967 to help seniors with little or no "outside" income (e.g., income from the Canada or Quebec Pension Plans, occupational pension plans, retirement savings) other than their Old Age Security pensions. There is no doubt that the program played a major role in the years that followed in reducing poverty among the elderly.

Unfortunately, the Guaranteed Income Supplement has two shortcomings that become more apparent as time goes by. The same can be said of the Spouse's Allowance.

One shortcoming is that the programs simply do not provide enough money to the poorest of the poor. As shown in the first column of Table 1 on the next page, the maximum Guaranteed Income Supplement paid to a single person in 1989 was $4,694. The maximum Guaranteed Income Supplement plus the Old Age Security pension of $3,950 gave a single pensioner a total income of $8,644. That was $3,393 below the estimated 1989 poverty line for a single person living in a city of half a million people or more.[1]

The other shortcoming of the Guaranteed Income Supplement and Spouse's Allowance is that benefits are beginning to go to people who are already above the poverty line. Single people qualified for partial GIS payments in 1989 if their outside incomes the previous year did not exceed $9,624. A person with

an outside income of $9,000, for example, and the old age pension of $3,950 qualified for GIS benefits of $194. As shown in the second column of Table 1, his or her total income for 1989 added up to $13,144 or $1,107 above the poverty line for a large city.

TABLE 1

POOR AND NOT-SO-POOR SINGLE PEOPLE
GETTING THE GUARANTEED INCOME SUPPLEMENT IN 1989

	Poor Senior	Not-So-Poor Senior
Guaranteed Income Supplement	$ 4,694	$ 194
Old Age Security	3,950	3,950
Outside Income	0	9,000
Total Income	$ 8,644	$ 13,144
Poverty Line for a Large City	$ 12,037	$ 12,037
Income Minus Poverty Line	- $ 3,393	+ $ 1,107

The National Council of Welfare would like to see a substantial increase in the Guaranteed Income Supplement and Spouse's Allowance for very poor pensioners without giving additional benefits to seniors who already have sizable outside incomes. We believe this can best be done by changing the "reduction rates" of the two programs.

To understand what a reduction rate is and what it does, it is necessary to know how benefits are calculated. In the case of the Guaranteed Income Supplement, for example, single seniors with no outside income aside from the Old Age Security pension get the maximum supplement. Seniors with some outside income have their GIS benefits reduced by 50 cents for every dollar of

outside income. In other words, the program has a reduction rate of 50 percent.

As outside income continues rising, GIS benefits get smaller and eventually disappear. The amount of outside income that marks the point where the GIS disappears is known as the "cut-off point."

The cross-hatched area of Figure A below shows how the current system worked for a single pensioner during the last three months of 1989. The maximum GIS benefit was $400.53 a month. Benefits declined as outside income rose, and they disappeared when outside income exceeded the cut-off point of $9,624.

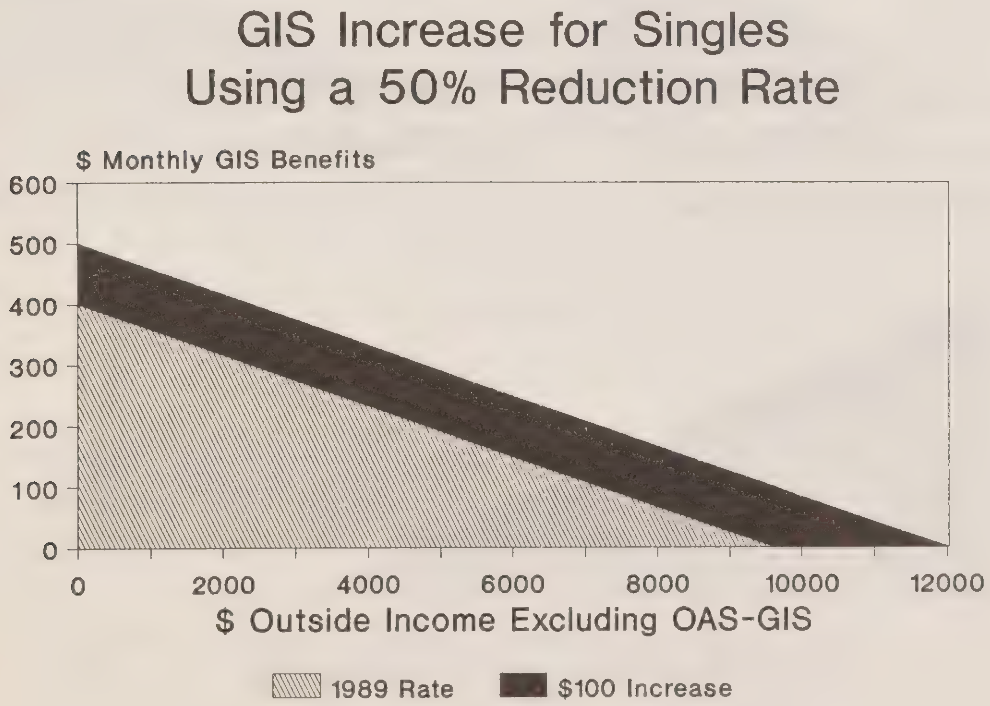


Figure A

Figure A also shows what would have happened if the federal government had increased the maximum Guaranteed Income Supplement by $100 a month without changing the reduction rate. The increase is shown as the black area of the graph.

By keeping the reduction rate at 50 percent, all single GIS recipients would have got across-the-board increases of $100 regardless of the size of their previous GIS benefits. Meanwhile, the cut-off point would have risen from $9,624 to $12,024. People with outside incomes of between $9,624 and $12,024 would have become eligible for partial GIS benefits for the very first time.

Figure B illustrates a better approach. It shows a GIS increase of $100 a month in 1989 coupled with an increase in the reduction rate to 63 percent.

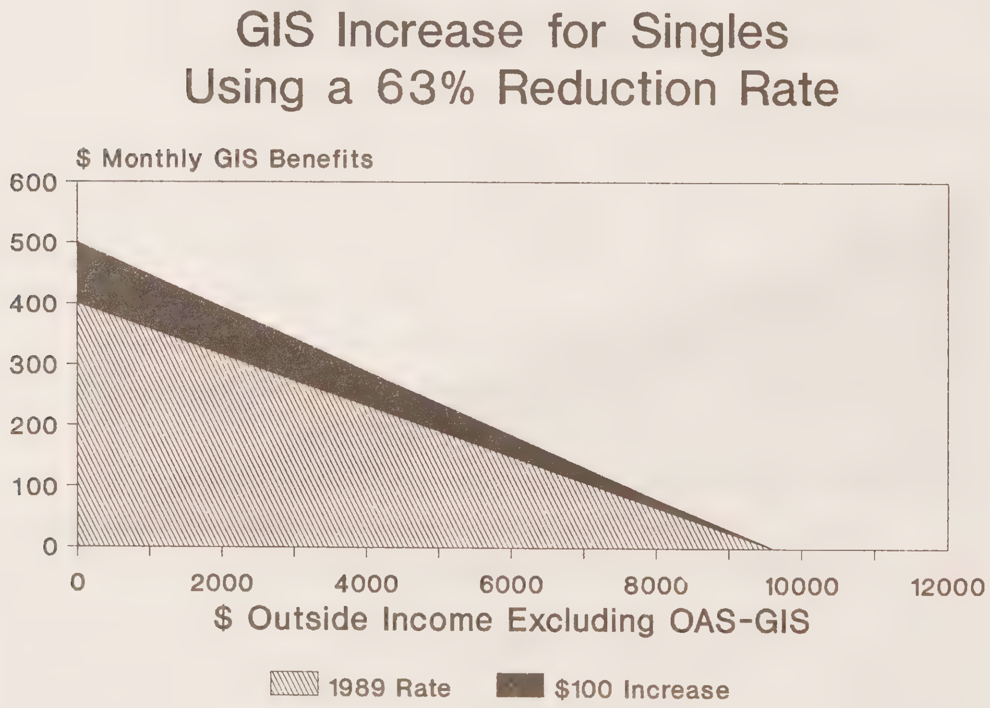
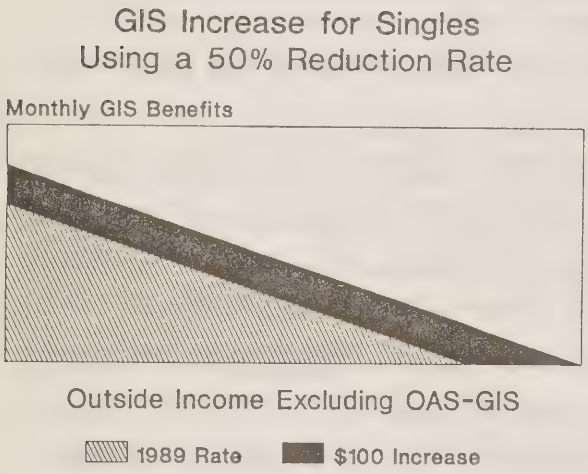


Figure B

All GIS benefits, including the extra $100 a month, would be reduced by 63 cents for every dollar of outside income. The rate of 63 percent was chosen specifically because, along with an increase of $100, it would have the effect of freezing the cut-off point at the current level ($9,624).

The impact of a higher reduction rate becomes clear by putting the two graphs together as in Figure C.



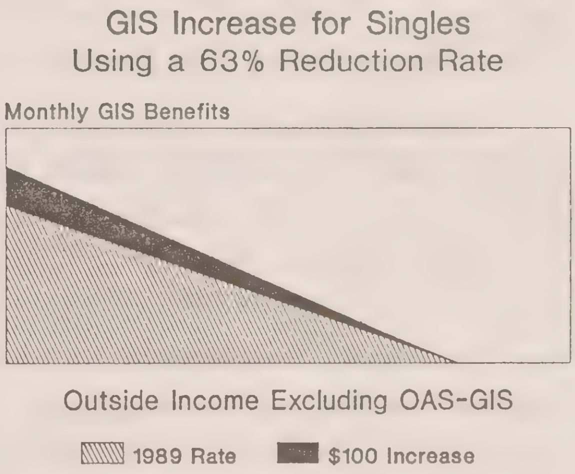


FIGURE C

Keeping the reduction rate at 50 percent produces a thick slice of black that represents equal increases in benefits to all GIS recipients regardless of the extent of their need.

Raising the reduction rate to 63 percent produces a black wedge of increases that are largest for people with the lowest incomes. At the same time, seniors who already get the GIS would not lose a penny of their current benefits.

Raising the reduction rate should also appeal to the federal government. The National Council of Welfare estimates that adding $100 a month to the Guaranteed Income Supplement and Spouse's Allowance for single people would have cost the federal government more than $1.2 billion in 1989 if the reduction rate stayed at 50 percent. Combining an increase of $100 with a reduction rate of 63 percent would have cost the government $814 million.[2]

Detailed information about the cost of this and our other pension reform proposals is presented in the final chapter of this report.

We developed a similar proposal for improving the Guaranteed Income Supplement for married seniors. However, we decided upon an increase of $100 a month for each couple - $50 for each spouse - and a reduction rate of 60 percent.

The main reason for an increase of $100 a <u>person</u> for single people and only $100 a <u>couple</u> for married people is that poverty is much more severe among single seniors. The maximum GIS rates that were in effect in 1989 left single people living $3,393 under the poverty line for a large city. The comparable "poverty gap" for a couple was $1,867.[3]

Our proposed reduction rate for couples turned out to be 60 percent rather than 63 percent for technical reasons rather than for reasons of substance. Our goals were to direct maximum benefits to couples at the low end of the income scale and to avoid raising the cut-off point in the process.

The National Council of Welfare estimates that adding $100 a month to the Guaranteed Income Supplement and Spouse's Allowance

for couples would have cost the federal government more than $400 million in 1989. Combining the increase with a reduction rate of 60 percent would have cost the government about $192 million.

Changing the reduction rates for the Guaranteed Income Supplement and Spouse's Allowance would require changes in some provincial and territorial income supplements to make sure that pensioners with modest outside incomes do not lose provincial and territorial benefits simply because of higher federal reduction rates. Other supplements might not have to change at all.[4]

Where adjustments are needed, they could be made without any additional expense to provinces and territories whatsoever.

Recommendation #1. The federal government should increase the maximum Guaranteed Income Supplement for single people by $100 a month and raise the reduction rate to 63 percent at the same time. Comparable changes should be made in the Spouse's Allowance for single people.

Recommendation #2. The federal government should raise the maximum Guaranteed Income Supplement for married seniors by $100 a month per couple - $50 a month for each spouse - and increase the reduction rate to 60 percent. Comparable changes should be made in the Spouse's Allowance for married people.

Recommendation #3. Provinces and territories which offer income supplements to poor pensioners should make whatever changes in their programs are necessary so that no one loses benefits because of higher reduction rates in the federal programs.

The increases in the Guaranteed Income Supplement and Spouse's Allowance that we recommend would provide much-needed

income to the poorest seniors. However, future increases would still be needed to get all seniors out of poverty - especially in provinces which do not have income supplements of their own.

An increase of $100 a month in the GIS for single people would still have left the poorest singles $2,193 below the poverty line for a large city in 1989. An increase of $100 a month would have left the poorest married couples $667 below the poverty line for a large city.

Provincial and territorial governments could help alleviate poverty among single seniors with proportionately higher rates for singles in their own income supplements. Unfortunately, Saskatchewan is the only province that now pays larger supplements to single people than to married people. Manitoba and British Columbia actually pay couples more than twice the benefits paid to singles.[5]

Recommendation #4. **The National Council of Welfare acknowledges Saskatchewan's sensible approach to income supplements and recommends that other provinces and territories give special consideration to the needs of single seniors.**

Helping Older People Under Age 65

The age of 65 was once considered the normal dividing line between seniors and the rest of the population. It was also the age that determined a person's eligibility for federal income security programs for the elderly.

In recent years, the federal government has begun to recognize the special needs of people aged 60 through 64,

particularly through the Spouse's Allowance. The program has evolved greatly since its beginning in 1975, but every round of improvements has highlighted its continuing weaknesses as much as its new strengths.

The Spouse's Allowance was created to help low-income Canadians aged 60 through 64 who were married to people 65 and older getting the Guaranteed Income Supplement. The maximum Spouse's Allowance was the same as the maximum Guaranteed Income Supplement for a married person plus the Old Age Security pension.

Recipients of the Spouse's Allowance used to lose all their benefits when their pensioner spouses died. In 1978, the program was changed to allow benefits to continue for six months after the death of a spouse. After the six-month grace period, benefits were cut off.

In 1979, the legislation was changed again to allow recipients of the Spouse's Allowance who were subsequently widowed to continue receiving benefits until they reached 65 and were eligible for the Guaranteed Income Supplement and Old Age Security pension in their own right. People who were widowed before they reached 60 or before their spouses reached 65 remained ineligible for the Spouse's Allowance.

Further changes followed in 1985 to open the program to all widows and widowers in need aged 60 through 64. To this day, however, the Spouse's Allowance does <u>not</u> cover the following categories of low-income Canadians: people 60 through 64 who never married, those 60 through 64 who are divorced or separated, married people where both spouses are 60 or older but less than 65, and married people 60 through 64 with spouses under 60.

Critics have long argued that it is wrong to use marital status as one of the main criteria for eligibility for the Spouse's Allowance. A court challenge claiming that the program violates the Canadian Charter of Rights and Freedoms is in the works, and there seems to be a good chance it will succeed.[6]

Rather than wait years for a final ruling from the Supreme Court of Canada, the federal government should act now and expand the Spouse's Allowance into a program that provides benefits to <u>all</u> poor people 60 through 64.

Money is the obvious reason that successive federal governments have shied away from this task. Health and Welfare Canada estimates that perhaps 390,000 more people would qualify for Spouse's Allowances if the program were opened to all in need aged 60 through 64. The extended program would mean additional spending by the federal government of $1.2 billion a year.[7]

Although spending of this magnitude would be a strain on any federal government, especially in a time of concern about the size of the deficit, it is spending that the National Council of Welfare considers worthy of support.

Extending benefits equivalent to the Spouse's Allowance to all people in need aged 60 through 64 is the proper thing to do. Ultimately, it may be the only realistic option left open to the federal government short of abandoning the program or invoking the "notwithstanding" clause of the Constitution to justify continuing a program that is clearly discriminatory.

Providing benefits to all poor seniors as early as age 60 would add to the trend toward earlier retirement that has already been seen in both the Canada and Quebec Pension Plans. We will

have more to say about this in the next chapter of this report, but we think it makes sense to give people the option of retiring at age 60 rather than waiting until age 65. Many individuals who experience chronic unemployment or underemployment would be better off getting Spouse's Allowance benefits or the equivalent than they would be on welfare or unemployment insurance.

As money is especially tight at the present time, we would envisage phasing in an expanded program of Spouse's Allowances. Perhaps the changes could be made over a period of five years, with all needy 64-year-olds added to the program the first year, all needy 63-year-olds the second year and so on.

One other problem with the Spouse's Allowance program that should be corrected at the earliest possible opportunity is the way it treats widows and widowers. Because of the rate structures used, widowed people under 65 get noticeably lower benefits than single, divorced and widowed people 65 and older.

Table 2 on the next page compares the situation of married and unmarried people who got benefits from the Spouse's Allowance or Guaranteed Income Supplement during the last quarter of 1989.

Married people who got the maximum Spouse's Allowance got exactly the same benefits as married people getting the maximum Guaranteed Income Supplement and Old Age Security pension. Widows and widowers who got the maximum Spouse's Allowance got $77.46 a month less than single, divorced or widowed people getting the maximum Guaranteed Income Supplement and Old Age Security pension.

TABLE 2

MAXIMUM MONTHLY BENEFITS FOR NEEDY PEOPLE
60 TO 64 AND 65 OR OLDER, OCTOBER-DECEMBER 1989

	Married People	Single People
Spouse's Allowance For People 60-64	$ 597.92	$ 660.11
Guaranteed Income Supplement Plus Old Age Security For People 65+	$ 597.92	$ 737.57
Difference	$ 0	$ 77.46

Recommendation #5. The federal government should expand the Spouse's Allowance program to provide equivalent benefits to all poor Canadians aged 60 through 64.

Recommendation #6. Single beneficiaries of the Spouse's Allowance should get benefits identical to the combined Old Age Security pension and Guaranteed Income Supplement for singles 65 and older.

Old Age Pensions for All

The Old Age Security pension has long been the cornerstone of Canadian social policy for the elderly. It recognized in a tangible way the contributions seniors made to Canada during their working lives. It was a universal program, free of stigma for recipients and subject only to minimal residence requirements. The administration of the program was a model of simplicity and low cost.

In its budget speech of April 27, 1989, the federal government announced plans for a "clawback" of old age pensions from well-to-do seniors and family allowances from higher-income parents.

The National Council of Welfare called on the government to abandon these proposals in a report issued in September 1989 entitled The 1989 Budget and Social Policy. We summarize our criticisms of clawbacks in Pension Reform. We also urge the federal government to modify the residence requirements for old age pensions that went into force in 1977.

Some people may think it strange that we would criticize clawbacks, because it is better-off Canadians who will be most adversely affected. However, the Council has always believed that the best social policy involves a mix of universal and selective programs. We support the Old Age Security pension as a universal program for all elderly Canadians regardless of their income, but we support the Guaranteed Income Supplement as a benefit that should go only to seniors in need.

Along the same lines, the Council has argued for many years that rich people are not bearing their fair share of the tax burden and that they enjoy tax breaks that are far too generous. When we deal with these criticisms in a later chapter of this report, however, we do not ask that tax breaks related to retirement savings be abolished outright, only that there be more reasonable limits.

The Case Against Clawbacks

The clawbacks announced in the 1989 budget speech are the most significant backward step in Canadian social policy in a generation, because they end the universal nature of the Old Age Security pension and family allowances.

Universality means that all recipients of a social program end up with meaningful benefits. Under the current system, seniors in the highest tax bracket wind up with about 55 percent of their Old Age Security benefits after paying federal and provincial income taxes on them. When the clawback comes into full force, well-off seniors will be forced to pay back every penny of their old age pensions.

The federal government's specific proposal is that recipients of the old age pension pay back 15 cents of their benefits for every dollar of net income over $50,000 a year. If the clawback had been in full force in 1989, seniors with net incomes of $76,332 or more would have lost 100 percent of their old age pensions.

The question of universality aside, there are a host of other problems with the proposal.

Clawbacks make a mockery of the government's own goal of simplifying the income tax system. Well-to-do seniors will have to use a new and complicated tax schedule to calculate the amount of the clawback at income tax time each year.

The clawback threshold of $50,000 a year is not fully indexed to the cost of living. That means that more and more people will be subject to clawbacks each year, since the level

of the threshhold will fall further and further below $50,000 in real terms. Middle-income seniors as well as upper-income seniors could be affected within relatively few years.

Finally, the change was announced in a budget speech without any prior consultation with seniors' groups or other groups interested in social policy. Budgets are simply not the place to make radical changes in social programs.

Recommendation #7. The National Council of Welfare repeats its previous recommendation that the federal government abandon plans for clawing back Old Age Security benefits. The old age pension should remain a universal social program that provides meaningful after-tax benefits to all seniors 65 and older.

Fairer Residence Requirements

One problem that has escaped much public attention in recent years is the residence requirements for the Old Age Security pension. At one time, people who lived in Canada for ten years or more received a full Old Age Security pension at age 65. Under revised residence requirements adopted in 1977, Canadians now have to "earn" their old age pensions at the rate of 1/40th of a full pension for every year of residence after age 18. Seniors with less than ten years of residence get nothing unless they came from countries that have international social security agreements with Canada.[8]

The ultimate result of the new residence requirements will be to trim Old Age Security pensions for many immigrants to Canada since 1977. Because of transitional provisions in the residence requirements, very few immigrants have been adversely

affected to date. In the future, most immigrants who came to Canada as adults will see their old age pensions pared down.[9]

The National Council of Welfare views these arrangements as excessively complex. A person with the full 40 years of residence winds up with a full OAS pension, while a person with 39 years of residence gets 39/40ths of the full pension, and so on.

The purpose of Old Age Security is to recognize in a concrete financial way the role older people played during their working lives in building the economy, raising families and enriching their communities. Trying to equate such intangible contributions with a precise number of years of residence is not appropriate.

We do not oppose the idea of a minimum residence requirement, but we believe it should be simple and straightforward. Our preference would be that all seniors 65 and older with a minimum of ten years' residence get the full pension. Pro-rata pensions would continue to be available for those with shorter periods of residence under the terms of international social security agreements.

One related matter should be addressed by the federal government at the same time. Not long after the current residence requirements went into effect, provincial governments started worrying that immigrants who retire after living in Canada only a few years would wind up on welfare. To try to head off this possibility, they lobbied for help from the federal government.

Ottawa responded in 1984 with a kind of "super" Guaranteed Income Supplement for people who were not entitled to the full

Old Age Security pension. Roughly speaking, the federal government agreed to pay regular GIS benefits for immigrants in need, plus extra GIS benefits to make up for the missing part of their OAS pensions.

Because of the way the super GIS is calculated, it provides benefits to some immigrant seniors with incomes many thousands of dollars above the poverty line. To take an extreme example, two married pensioners who qualify for only 1/40th of the full OAS pension by virtue of an international social security agreement and one year of residence in Canada were eligible to receive GIS benefits in the last quarter of 1989 with outside family income of up to $28,320 a year. The income cut-off for couples where both spouses had full OAS pensions was $12,528.[10]

Recommendation #8. The federal government should amend the residence requirements for the Old Age Security pension to provide full benefits for people 65 and older who have resided in Canada at least ten years. International social security agreements can continue to provide for pro-rata old age pensions for immigrant seniors who lived in Canada less than ten years.

Recommendation #9. Once new residence requirements for Old Age Security are in place, the "super" Guaranteed Income Supplement should be dropped. Immigrants in need should be eligible for the same Guaranteed Income Supplement benefits as other residents of Canada and under the same conditions.

IMPROVING THE CANADA AND QUEBEC PENSION PLANS

The National Council of Welfare has long regarded improving the Canada and Quebec Pension Plans as the single most important task governments could undertake to develop a more rational retirement income system and wipe out poverty among the elderly at the same time.

The two plans already have many features that make them ideal starting points. They cover virtually everyone in the paid labour force, they follow workers whenever they change jobs, and they give pensioners full protection against inflation.

Their primary shortcoming is that they were designed to provide retirement benefits equal to only 25 percent of earnings up to the average wage.

When governments set up the Canada and Quebec Pension Plans in 1966, they built the limit of 25 percent into the plans in the expectation that occupational pension plans, registered retirement savings plans and other personal savings and investments would provide the additional income needed to give pensioners a decent standard of living.

Unfortunately, this expectation turned out to be unrealistic. Fewer than half of the employed paid workers in the labour force belong to occupational plans, and there is no reason to believe the situation will improve in the future.[11] Meanwhile, registered retirement savings plans and other individual methods of retirement savings continue to be used most extensively by well-to-do Canadians.

In light of the limitations of occupational plans and RRSPs, we believe governments should put aside their past reservations and take a serious look at expanding the Canada and Quebec Pension Plans. We are pleased to learn that Ontario, a province that has traditionally played a key role in pension reform, is no longer outrightly opposed to the idea of expanding the plans.[12]

In this chapter, we endorse a formula for across-the-board increases in benefits from the Canada and Quebec Pension Plans. We also propose early retirement without penalty and address two issues of particular interest to women: splitting pension benefits between spouses and improving survivor pensions and benefits for dependent children.

Boosting CPP-QPP Benefits

The Canada and Quebec Pension Plans now provide more than $7 billion a year in retirement benefits to two million seniors. Impressive as those figures may be, the simple fact is that many CPP-QPP recipients have to rely on the Guaranteed Income Supplement to make ends meet. In some cases, even hefty GIS payments are not enough to get pensioners over the poverty line.

We believe it is fundamentally wrong that a public pension program set up to cover the entire paid labour force is incapable of producing benefits large enough to keep most of its beneficiaries out of poverty.

Table 3 on the next page shows the financial situation of pensioners who got the maximum CPP or QPP pension in 1989. Roughly speaking, the maximum pension goes to people who earned the average wage or better during their working years.

TABLE 3

RETIREMENT INCOMES OF SENIORS
WITH MAXIMUM CPP OR QPP PENSIONS, 1989

	Single Person	Couple With One CPP-QPP Pension
CPP-QPP Benefits	$ 6,801	$ 6,801
Old Age Pension	3,950	7,900
Guaranteed Income Supplement	1,466	2,886
Total Income	$ 12,217	$ 17,587
Poverty Line for a Large City	$ 12,037	$ 15,881

Even with the maximum CPP or QPP pension plus the Old Age Security pension, singles and couples have to rely on sizable Guaranteed Income Supplements to get over the poverty line for a city of half a million people or more.

People who earned less than average wages during their careers get smaller CPP or QPP benefits than those in Table 3 and have to rely even more on the Guaranteed Income Supplement. People with career earnings at half the average wage, for example, get thousands of dollars a year in GIS payments and still end up below the poverty line.

The Cofirentes Plus Approach

After studying the main options for expanding the Canada and Quebec Pension Plan, the National Council of Welfare concluded that the best option was the Cofirentes Plus approach proposed in 1977 in a study for the Quebec government.[13]

Cofirentes Plus uses a two-step formula that would see the CPP and QPP replace 50 percent of earnings up to <u>half</u> the average wage and 25 percent of earnings thereafter up to the average wage. The effect of the two steps combined would be a pension that replaces 37.5 percent of earnings at the average wage. The replacement rates of earnings below the average wage would range from 37.5 to 50 percent.

Figure D illustrates the 25 percent of earnings replaced by the CPP and QPP at the present time and the additional earnings that would be replaced under the Cofirentes Plus formula. The figures at the bottom of the graph show the earnings limits of the CPP and QPP in 1989: $2,700 is the point where people start contributing to the plans, $13,850 is half the average wage and $27,700 the average wage.

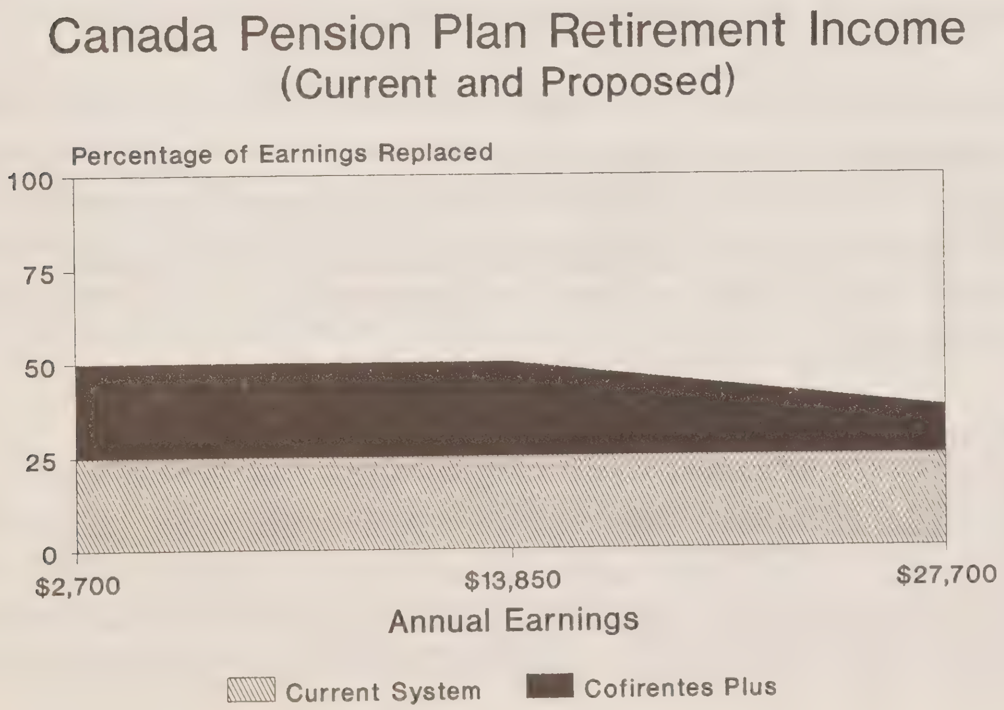


Figure D

Given our mandate as advocates for low-income Canadians, the National Council of Welfare is naturally receptive to proposals that provide the largest increases to those most in need. Cofirentes Plus would do this, and it would also give sizable increases in benefits to <u>all</u> contributors to the CPP and QPP.

For people with career earnings at half the average wage, Cofirentes Plus would have raised the CPP or QPP retirement pension to $556.25 a month from $278.13 a month in 1989. For people with career earnings at the average wage or above, the pension would have gone up to $834.38 a month from $556.25.

The Cofirentes Plus formula would also increase disability pensions and survivor pensions, because both are calculated at least in part on the size of a contributor's retirement pension.

Current and proposed levels of all these CPP-QPP benefits are summarized in the appendix near the end of this report.

If the Cofirentes Plus formula was now in full force, most seniors with CPP or QPP pension income would no longer be poor. Meanwhile, the federal government would be spending substantially less on the Guaranteed Income Supplement and Spouse's Allowance. Information about these savings is presented in the final chapter of this report.

Table 4 uses figures for 1989 to show the impact of Cofirentes Plus on singles and couples with one CPP or QPP pension based on career earnings at the average wage. Under the current system, both the single person and the couple need substantial Guaranteed Income Supplement payments to get above the poverty line for a city of half a million or more. Under

Cofirentes Plus, total incomes are higher, and GIS requirements are eliminated or substantially reduced.[14]

TABLE 4

RETIREMENT INCOMES IN 1989 OF SENIORS WITH CAREER EARNINGS AT THE AVERAGE WAGE

Single Person

	Current System	Cofirentes Plus
CPP-QPP Income	$ 6,801	$ 10,202
Old Age Security	3,950	3,950
Guaranteed Income Supplement	1,466	0
Total Income	$ 12,217	$ 14,152
Poverty Line for a Large City	$ 12,037	

Couple with One CPP-QPP Pension

	Current System	Cofirentes Plus
CPP-QPP Income	$ 6,801	$ 10,202
Old Age Security	7,900	7,900
Guaranteed Income Supplement	2,886	1,212
Total Income	$ 17,587	$ 19,314
Poverty Line for a Large City	$ 15,881	

The results are slightly different for people with career earnings at half the average wage as shown in Table 5 on the next page. Both the single person and the couple still need help from the Guaranteed Income Supplement, but not nearly as much as under the current system. Meanwhile, the higher benefits from

Cofirentes Plus mean that both the single person and the couple wind up <u>above</u> the poverty line rather than below it.

TABLE 5

RETIREMENT INCOMES IN 1989 OF SENIORS WITH CAREER EARNINGS AT HALF THE AVERAGE WAGE

Single Person

	Current System	Cofirentes Plus
CPP-QPP Income	$ 3,401	$ 6,801
Old Age Security	3,950	3,950
Guaranteed Income Supplement	3,080	1,466
Total Income	$ 10,431	$ 12,217
Poverty Line for a Large City	$ 12,037	

Couple with One CPP-QPP Pension

	Current System	Cofirentes Plus
CPP-QPP Income	$ 3,401	$ 6,801
Old Age Security	7,900	7,900
Guaranteed Income Supplement	4,501	2,886
Total Income	$ 15,802	$ 17,587
Poverty Line for a Large City	$ 15,881	

The Canada and Quebec Pension Plans are financed by contributions from workers and employers and the interest earned on those contributions. The major increase in benefits under the Cofirentes Plus approach would naturally require corresponding increases in the contribution rates. Detailed estimates of these higher rates were prepared by the Office of the Superintendent of

Financial Institutions at the request of the National Council of Welfare and appear in the final chapter of this report.

Recommendation #10. The federal and provincial governments should improve benefits from the Canada and Quebec Pension Plans using the Cofirentes Plus formula. The higher benefits would be financed by higher contributions from workers and employers.

Early Retirement Without Penalty

The normal age of retirement under the Canada and Quebec Pension Plans is 65. Both plans allow contributors to retire as early as age 60, but only if they pay a "penalty" of one-half of one percent of the normal retirement pension for each month prior to age 65.

People who retire at age 60, for example, retire 60 months early and thereby lose 30 percent of their full monthly CPP or QPP pension. The losses are permanent and continue even after the pensioners turn 65.

Penalties for early retirement are not unusual in pension plans. The idea is that people get the same accumulated lifetime pension benefits on average by taking a full pension for life at age 65 or a reduced pension for life at age 60.

Having said that, the specific requirements of the Canada and Quebec Pension Plans regarding the age of retirement appear unduly strict. Both plans are based on the premise that Canadians would normally work 47 years in the paid labour force - that they would start working at age 18 and continue until age 65.

The two plans have a "general drop-out" provision that allows people to disregard up to seven years of low earnings or no earnings for pension purposes. Even with the drop-out, however, the plans assume careers that last 40 years.

The best occupational pension plans are far more generous. The superannuation plan for federal public servants, for example, allows full retirement benefits as early as age 55 with 30 years of service. Some other plans use a formula known as the "rule of 86," where a full pension is payable as soon as a worker's age plus years of service equal 86.

The National Council of Welfare is convinced that the Canada and Quebec Pension Plans can give workers a better deal than they do at the present time. Our hope is that the federal and provincial governments will get rid of the existing penalties and allow full pensions at age 60.

We believe the option of retirement at age 60 is good public policy for several reasons.

Older workers who lose their jobs are the ones most likely to have trouble finding new jobs. The federal government has tried to address the problem of unemployed older workers, but its efforts to date have been largely unsuccessful. The plain truth is that make-work jobs are the best many workers nearing retirement can hope for if they are laid off or if their employers go out of business.

Early retirement is fairer to workers who enter the labour force immediately after high school. Under the current system, blue-collar workers who start work at age 18 and retire at 65

put in 47 years in the labour force and pay contributions to the CPP or QPP for 47 years before getting full retirement benefits at age 65. Meanwhile, professionals who go to university and then do post-graduate work start their careers at age 25, contribute only 40 years to the plans and get full CPP or QPP benefits at age 65. They are not penalized for starting to work seven years later, because they can disregard the seven years by virtue of the general drop-out.

Workers who enter the labour force before age 20 are also the ones most likely to be in jobs that are physically demanding. Early retirement would certainly be appealing to construction workers and workers in heavy industries, who are often worn out by the time they reach their late fifties.

Our specific proposal is early retirement without penalty at age 60, provided workers have 40 years of contributions to the CPP or QPP and provided they give up their general drop-out. Contributors would still be able to claim another drop-out, the "child-rearing drop-out" for parents with young children.

There is nothing inherently magical about retirement at age 60, but it would fit in well with other parts of our proposed pension reform package. Low-wage earners who started claiming modest CPP or QPP benefits at 60 might be eligible for partial Spouse's Allowance payments or the equivalent under the recommendations we made in the first chapter of this report.

Recommendation #11. The federal and provincial governments should drop the "penalties" for early retirement that now exist in the Canada and Quebec Pension Plans and allow retirement without penalty at age 60.

Making Credit-Splitting the Rule Rather than the Exception

In recognition of marriage as an equal partnership between spouses, both the Canada and Quebec Pension Plans provide for "credit-splitting" on the breakdown of a legal marriage or a common-law relationship that lasted more than one year.[15]

Credit-splitting means that any pension "credits" or entitlements to future pension benefits that are earned during the course of a marriage or common-law union are shared when the relationship ends. The credits of both spouses are added together, divided in two and distributed equally to each spouse.

Both the Canada and Quebec Pension Plans have had provisions for credit-splitting on marriage breakdown for a number of years, and the last round of improvements in the Canada Pension Plan was supposed to make credit-splitting apply in all cases. What happened instead was the CPP legislation passed by Parliament said splitting could be overridden by provincial family law. Saskatchewan subsequently decided to override the federal law and allow spouses to waive their right to credit-splitting.

Allowing pension credits to be traded off in a separation or divorce can work to the particular detriment of women. A young woman might waive her right to $10,000 worth of pension credits for an extra $10,000 of equity in the family home, for example. That may be appealing in the short term, but leave her in financial difficulty when she gets to retirement age.

We are disturbed by the federal government's refusal to live up to its original agreement on credit-splitting and by Saskatchewan's refusal to accept mandatory splitting.

We are also concerned about Ottawa's inability to set up a system to make credit-splitting routine. As of September 1989, only 21,267 applications for splitting under the CPP had been approved since the option was first available in 1978. During those years, there were approximately half a million divorces that should have led to splitting.[16]

Surely the federal officials who administer the Canada Pension Plan could be notified routinely of divorce decrees, all of which are filed under federal law. And surely they could make certain that there are no unsplit credits outstanding before they authorize the payment of any CPP benefit to an individual.

Both for reasons of principle and for practical reasons which will become obvious later in this chapter, the National Council of Welfare believes credit-splitting should take place in enduring marriages as well as in marriages that break up. The most logical time to divide these credits is when the younger of the spouses retires from the paid labour force or reaches the age of retirement.[17]

Recommendation #12. The federal and provincial governments should take steps to ensure that credit-splitting is automatic, mandatory and as immediate as possible following marriage breakdown.

Recommendation #13. In the case of lasting marriages, credit-splitting should be mandatory, automatic and immediate upon the retirement of the younger spouse.

Better Survivor Pensions and Benefits for Children

When the Canada and Quebec Pension Plans began in 1966, most women were housewives and financially dependent on their husbands. Marriage was seen as a relationship that normally lasted a lifetime. In this social environment, it made sense for the two pension plans to have survivor pensions intended for widows of plan members as well as children's benefits for children of deceased or disabled plan members.

Canadian society has undergone radical changes in the last generation, but the system of survivor and children's benefits has changed little.

In the sections that follow, the National Council of Welfare puts forward a series of recommendations concerning benefits for survivors and dependent children. Some of the recommendations merely increase benefit levels. Others would make the system fairer and more relevant to today's social realities.

At the present time, close to one million people - 89 percent of them women - receive survivor benefits of one kind or another from the Canada and Quebec Pension Plans.

Roughly three-quarters of the recipients had no experience in the paid labour force and receive survivor benefits because their deceased spouses were CPP or QPP members. The rest have "combined" survivor-retirement pensions - partly retirement income they earned in their own right and partly survivor benefits from their deceased spouses.

As well, the Canada and Quebec Pension Plans pay orphan's benefits for about 125,000 dependent children of deceased plan

members and for about 65,000 dependent children of disability pensioners. Dependents are those under age 18 and full-time students 18 through 24.

The two plans normally have identical benefits. But as Table 6 shows, the Quebec Pension Plan has higher benefits for survivors under 65 than the Canada Pension Plan and lower benefits for dependent children.[18]

TABLE 6

MAXIMUM MONTHLY SURVIVOR PENSIONS AND BENEFITS FOR DEPENDENT CHILDREN, 1989

	Canada Pension Plan	Quebec Pension Plan
Survivors 65 and Older	$ 333.75	$ 333.75
Survivors 55 to 64	311.61	546.39
Survivors Under 55	311.61	472.63
Dependent Children	103.02	29.00

Both the Canada and Quebec Pension Plans pay survivor pensions to spouses of deceased plan members whether or not the spouses are in need and whether or not they are in the paid labour force. Neither plan pays benefits to divorced spouses of deceased plan members.

Table 7 on the next page shows the distribution by age of the people receiving survivor or combined survivor-retirement pensions from the Canada Pension Plan as of September 1989. More than 82 percent of the recipients are age 60 or older.

TABLE 7

DISTRIBUTION OF CANADA PENSION PLAN SURVIVOR PENSIONS
AND COMBINED SURVIVOR-RETIREMENT PENSIONS, SEPTEMBER 1989

Age of Recipient	Number of Recipients	Distribution
65 and Older	511,955	70.2 %
60 - 64	90,050	12.3
55 - 59	46,986	6.4
50 - 54	29,861	4.1
45 - 49	20,578	2.8
40 - 44	14,803	2.0
35 - 39	8,697	1.2
Under 35	6,467	0.9
Totals	729,397	100.0 %

Our specific recommendations for improving benefits for survivors and dependent children are grouped into four sections: benefits for spouses 60 and older, benefits for spouses under 60, benefits for children, and benefits for divorced people.

As we said earlier, the Canada and Quebec Pension Plans differentiate between pensions to surviving spouses under 65 and pensions to survivors 65 and older. We would change the system to make age 60 the divide. This is in line with our other recommendations for making income security and pension benefits more widely or more readily available at age 60.

Survivors 60 and Older

At the present time, both the Canada and Quebec Pension Plans pay surviving spouses 65 and older pensions equal to

60 percent of the deceased plan member's retirement pension. The maximum survivor pension in 1989 was $333.75 a month. There is also a limit on combined survivor-retirement pensions that is equal to the maximum retirement pension on its own. The combined limit in 1989 was $556.25 a month.

The main improvement we propose for surviving spouses 60 and older goes back to our earlier recommendation for credit-splitting upon retirement in the case of enduring marriages. We would retain the 60 percent formula for calculating survivor pensions, but the calculation would be done after credit-splitting rather than before.

This change would result in a significant increase in benefits for surviving spouses from one-earner couples. It would probably mean no more than modest improvements for survivors from two-earner couples.

In the case of a one-earner couple, credit-splitting would raise the effective level of benefits from 60 percent to 80 percent of the normal retirement pension. The 80 percent pension comes about this way: a surviving spouse would keep the 50 percent retirement pension obtained through credit-splitting and would also get 60 percent of the deceased spouse's 50 percent retirement pension. The result is a combined pension of 80 percent - 50 percent plus 30 percent.

Under our proposal, the two spouses would be treated exactly the same no matter which of them died first. If the wage-earner died first, the dependent spouse would wind up with an 80 percent pension. If the dependent spouse died first, the wage-earner would end up with an 80 percent pension.

Under the current system, if the wage-earner dies first, the dependent spouse gets a 60 percent survivor pension. If the dependent spouse dies first, the wage-earner keeps a 100 percent retirement pension.

If our proposal for calculating survivor pensions after credit-splitting was in effect in 1989, the maximum survivor pension would have been $445 a month at the 80 percent level rather than $333.75 at the 60 percent level. If there was a general increase in CPP and QPP benefits using the Cofirentes Plus formula, the maximum survivor pension would have been $667.50 at the 80 percent level rather than $500.63 at the 60 percent level.

In the case of a two-earner couple, doing the calculations on survivor pensions after credit-splitting rather than before would lead to a modest increase in benefits for surviving spouses who had modest career earnings of their own, but whose deceased spouses had earnings at the average wage or better.

Where both spouses had jobs that paid the average wage or more, neither spouse would qualify for a survivor pension. Each spouse would be entitled to the maximum possible retirement pension. And because each of them was already getting the maximum, there would be no survivor pension.

<u>Recommendation #14</u>. The federal and provincial governments should agree to calculate all CPP and QPP survivor pensions paid to people 60 and older <u>after</u> credit-splitting rather than before.

Survivors Under 60

The Canada Pension Plan now gives survivors under 65 a pension made up of a flat-rate portion that is the same for everyone and a portion that is based on the earnings of the deceased plan member. The flat-rate portion is important because it provides a minimum benefit for spouses of low-wage workers.

In 1989, the flat-rate portion of the CPP survivor pension was $103.02, and the earnings-related portion was 37.5 percent of the deceased spouse's retirement pension to a maximum of $208.59. Combining the two, the maximum survivor pension was $311.61. At age 65, survivor pensions are recalculated under the rules for survivors 65 and older.

In September 1987, the federal government published a consultation paper that proposed "transitional" improvements in survivor pensions for survivors under 65, followed by the creation of an entirely new system that would not come into full force until well into the 21st century.[19]

The proposed transitional improvements were to double the flat-rate portion of the pension and also to make full benefits available to survivors under the age of 45. Both these goals have the support in principle of the National Council of Welfare.

Doubling the flat-rate portion in 1989 would have raised the maximum pension to $414.63 a month from $311.61. Under the Cofirentes Plus formula we recommended earlier in this report, there would have been a further increase to $518.93.

Under the current system, only survivors under 45 who have dependent children or who are disabled qualify for survivor

benefits. Many people believe the system discriminates on the basis of age, disability or family status and is therefore in violation of the equality provisions of the Canadian Charter of Rights and Freedoms. We agree and would like to see full survivor pensions available to people under 45.

The transitional improvements proposed in the consultation paper would eventually give way to an entirely new system that would have provided benefits of between $369.33 and $923.33 a month had the system been in force in 1989. However, full benefits would continue only for three years or until a survivor's youngest child, if any, reached age seven. There would be two further years of reduced benefits and nothing beyond that to age 65.

The National Council of Welfare sees enormous inequities in these proposals for an entirely new system. Tens of thousands of widows in their late fifties and early sixties would lose their benefits in relatively short order, even if they had no experience in the paid labour force at the time they were widowed. The federal government would pay a 54-year-old widowed homemaker up to $923.33 a month for three years and reduced benefits for two more years. Then it would cut her off completely at age 59 on the assumption she would have found a job by then. We believe that is totally unrealistic.

Recommendation #15. **The National Council of Welfare endorses in principle the transitional improvements proposed in the federal government's 1987 consultation paper on survivor pensions under the Canada Pension Plan. These improvements should be made permanent, and they should apply to survivors under age 60 rather than survivors under 65.**

Recommendation #16. The federal government should not proceed with the entirely new system of survivor pensions proposed in the consultation paper.

Dependent Children

The federal government's consultation paper on survivor pensions recommended an increase for dependent children that would have raised benefits to $132.02 a month in 1989 from $103.02.

The National Council of Welfare naturally welcomes increases in children's benefits, but we think the federal government can do better than the proposal in the consultation paper. We would also like to see the Canada Pension Plan provide different levels of benefits for dependents of different ages.

Benefits for pre-school children should be the highest because pre-school children need the most care. Widows with young children are more apt to be out of the paid labour force than widows with older children. And widows with pre-school children who are already in the labour force are more likely to face huge expenses for day care.

Older children need less care and are less likely to keep their parents out of the labour force. Children aged 18 through 24 who are full-time students may even be able to help out their families by working part-time or full-time during the summer months.

Our specific proposal is to double CPP benefits for children under the age of seven, an increase that would have

raised benefits to $206.04 a month from $103.02 a month in 1989. Benefits for children seven through 17 would go up 50 percent to $154.53 a month. Benefits for children 18 and older would remain at their current level of $103.02 a month.

Recommendation #17. Children's and orphan's benefits under the Canada Pension Plan should be doubled for children under seven and increased by 50 percent for children seven through 17. Benefits for children 18 and older should remain at their current levels.

Divorced Survivors

Both the Canada and Quebec Pension Plans pay survivor pensions to current spouses, but not to former spouses. This can result in tremendous inequities.

Take the example of a man who marries at age 20, gets divorced at age 45, remarries at age 50 and dies at age 55. The second wife, his wife of five years, gets a full CPP or QPP survivor pension under the current system. The first wife, his wife of 25 years, gets nothing.

The National Council of Welfare believes these arrangements are contrary to the principle of sharing family assets between marriage partners. The Canada and Quebec Pension Plans already recognize the principle of sharing through credit-splitting. We think the same principle should be reflected in the way the plans approach survivor pensions.

In our view, the fairest way to handle survivor pensions is to have pro-rata benefits in cases where people have been married

more than once or had more than one common-law relationship lasting a year or more.

Here is how our proposal would work, going back to the example at the beginning of this section of a man married for 30 years - 25 years to his first wife and five years to his second wife. The first wife would get 25/30ths of the total survivor pension and the second wife would get 5/30ths.

There are practical as well as philosophical reasons for the course of action we recommend.

Most women now are in the paid labour force for all or much of their adult lives and will eventually be claiming CPP or QPP retirement pensions in their own right. However, because women have lower wages on average than men and because women tend to work part-time more often than men, relatively few women will qualify for the maximum possible CPP or QPP retirement pension.[20]

Pro-rata survivor pensions from ex-spouses combined with retirement pensions would help many women get to the maximum possible combined pension or at least closer to the maximum.

Critics of pro-rata pensions maintain that all the loose ends should be tied up as quickly as possible after marriage breakdown. They say it is unfair to create a situation where a couple could split up at age 30, for example, and leave the issue of survivor pensions unresolved for 35 or 40 years or more.

What the critics fail to consider is that survivor pensions in the Canada and Quebec Pension Plans are not guaranteed assets like a life insurance policy or equity in the family home. They are contingent on a number of conditions that cannot be known

until the death of one of the spouses. And they are paid from the plans themselves, not from the estate of a deceased plan member.

All the arrangements for survivor pensions can be left to the officials who administer the Canada and Quebec Pension Plans. There would be no need for the first and second wives or the first and second husbands of a deceased plan member to meet personally to work out the details.

Recommendation #18. **Survivor pensions from the Canada and Quebec Pension Plans should be prorated among former and current spouses based on the length of each relationship.**

Expanding the Child-Rearing Drop-Out

Both the Canada and Quebec Pension Plans have a provision known as the "child-rearing drop-out" that was designed for parents who forego opportunities in the paid labour force to stay at home while their children are young.

The provision allows parents to disregard, for the purpose of future pension benefits, any years of low earnings or no earnings when their children were under the age of seven. For example, a mother with two children who stayed home for ten years while one or both of her children were under seven and who then worked 30 years in the paid labour force would qualify for a full CPP or QPP pension. She would not lose benefits because of her ten years away from the workplace.

The child-rearing drop-out is in addition to the general drop-out of low-wage or no-wage years that is available to all CPP and QPP contributors.

The National Council of Welfare believes that society owes financial recognition not only to parents who stay home to care for young children, but also to adults who stay home to care for disabled and infirm relatives of any age who would otherwise have to be institutionalized. We would like to see benefits similar to the child-rearing drop-out available to these people.

Once this change is made, the name of the benefit should be changed to reflect its broader scope. One possibility worth considering is the "family responsibility drop-out."

Recommendation #19. The Canada and Quebec Pension Plans should provide benefits similar to the child-rearing drop-out for adults who forego opportunities in the paid labour force to care for disabled or infirm relatives.

REFORMING OCCUPATIONAL PENSION PLANS AND RRSPs

The kind of retirement income system favored by the National Council of Welfare is based firmly on federal income security programs and the Canada and Quebec Pension Plans. However, there would still be ample room for other types of retirement savings.

Occupational pension plans and registered retirement savings plans or RRSPs provide an important source of income for many pensioners. Often they mean the difference between retiring with a comfortable income, as opposed to an income that is barely adequate.

To encourage people to save for their own retirement, the federal government provides "tax assistance" for occupational pension plans and RRSPs. People who contribute to these plans are allowed to deduct their contributions - within certain limits - from their taxable incomes. As a result, they pay lower federal and provincial income taxes.

In this chapter, we look at the amount of tax assistance the federal government allows for occupational pension plans and RRSPs and propose limits that we consider more reasonable. We also propose that government incentives to encourage retirement savings take the form of tax credits rather than tax deductions.

Finally, we discuss proposals for protecting income from occupational pension plans against inflation, recommend that all occupational plans contain an option for survivor benefits, and endorse credit-splitting in occupational plans on marriage breakdown.

Before we continue, we should explain how the two main types of occupational pension plans work and how they differ from registered retirement savings plans.[21]

The vast majority of the workers in Canada who belong to occupational pension plans belong to "defined-benefit" plans. The best of these plans guarantee workers pensions of two percent of their best earnings for every year of service to a maximum of 35 years. A worker employed by the same company for 35 years would wind up with a pension to replace 70 percent of his or her best earnings. That, plus the federal Old Age Security pension and income from the Canada or Quebec Pension Plans, would put a person in good financial shape for retirement.

The other main type of occupational pension plan is the "money-purchase" plan. Unlike defined-benefit plans, money-purchase plans do not guarantee their members pensions that are tied directly to their previous earnings. Contributions go into a pension account, and whatever money is built up over the years is used to buy an annuity upon retirement. The amount of income provided by an annuity depends in part on the prevailing interest rates at the time the annuity is purchased.

Registered retirement savings plans are a bit like money-purchase plans, because they build up money that can be used to buy an annuity upon retirement. However, there are several important differences. Contributions to RRSPs are entirely voluntary, and there are no requirements of any kind for regular contributions. People can choose the type of investments that go into their own RRSPs and can even administer the investments themselves if they choose. Finally, RRSPs can be

cashed in well before retirement and used for purposes other than retirement income - to buy a new car or make a downpayment on a house, for example.

Fairer Limits on Tax Assistance

The Income Tax Act limits the amount of money that individuals can contribute to occupational pension plans and RRSPs. For many years, the contribution limits for RRSPs and money-purchase plans have been much lower than the limits for defined-benefit plans.

Ever since 1984, successive federal governments have committed themselves to raising the limits for money-purchase plans and RRSPs. Legislation announced by the federal government in December 1989 would raise these limits so that contributors to different types of retirement savings plans would have the same tax breaks available to them by 1995. The legislation also proposed to close a number of loopholes in the existing system that the federal government said were causing "large and growing" revenue losses.[22]

Under the proposed legislation, contributions to defined-benefit plans would be tax-deductible on earnings as high as $86,111 a year. A person with best earnings of $86,111 and 35 years of service would get a tax-assisted pension of $60,278 a year.

Meanwhile, contributions to money-purchase plans and RRSPs would be limited to 18 percent of earnings on earnings as large as $86,111 a year by 1995. The maximum contribution would be $15,500 a year. The Finance Department estimates that

contributions of that size for 35 years would produce retirement income of roughly $60,000 a year under the normal market conditions for annuities.

The National Council of Welfare is not unsympathetic to efforts by the Finance Department to put contributors to different types of plans on the same tax footing.

At the same time, we believe the proposed earnings limit of $86,111 a year is excessively generous to employees who are already rich by any standard. People should be able to save as much money as they like for their own retirement, but there should be reasonable limits on the tax breaks given by governments to encourage retirement savings.

The tax deductions that now help to generate huge pensions for the wealthy reduce the amount of income tax the federal government collects each year. Either the federal government has to spend less or it has to collect more taxes from all taxpayers to make up for the loss of revenue.

The same applies to provincial and territorial governments. The two territories and all provinces except Quebec have joint tax collection agreements with the federal government. When the federal government gets smaller revenues because of tax breaks, provincial governments get smaller revenues as well.

What is a reasonable limit on tax assistance? We believe there should be no tax assistance for retirement savings on earnings in excess of one and one-half times the average wage as measured by the Year's Maximum Pensionable Earnings in the Canada and Quebec Pension Plans.

In 1989, the YMPE was $27,700, so one and one-half times the YMPE was $41,550.

The vast majority of employees earn less than $41,550 a year and would not be affected by our proposed limit on tax assistance.[23] People who earn more than this would still be able to have tax-assisted occupational pension plans and RRSPs, but only for that portion of their earnings up to one and one-half times the average wage.

If our proposed limit had been in full force in 1989, the highest tax-assisted pension from a defined-benefit plan would have been $29,050 a year for a person with 35 years of service. That is about half the maximum pension of $60,025 now allowed under the Income Tax Act.

The comparable 1989 limit on contributions to money-purchase plans and RRSPs would have been $7,479, about the same as the actual 1989 limit of $7,500.

For members of defined-benefit plans, we would propose to apply our new limit to pensions benefits that relate to earnings in 1990 and subsequent years. Pension benefits earned in 1989 and previous years would not be affected.

For contributors to money-purchase plans and RRSPs, we would keep the contribution limit at $7,500 in 1990. In future years, the limit would increase in line with increases in the average wage.

Recommendation #20. The Income Tax Act should be amended to restrict the tax breaks associated with occupational pension plans and RRSPs. Contributions to defined-benefit plans should be limited to earnings of no more than one and one-half times the average wage. Contributions to money-purchase pension plans and RRSPs should be limited to $7,500 a year in 1990, and increases in future years should not exceed increases in the average wage.

Recommendation #21. While the National Council of Welfare opposes the federal government's plans to increase the limits on tax-assisted retirement savings, it applauds companion measures to close loopholes in the current system.

Tax Credits Rather than Tax Deductions

One other matter relating to both occupational pension plans and RRSPs remains to be addressed: the type of tax assistance provided to contributors.

The Income Tax Act now allows tax deductions for contributions, a technique that gives the most tax assistance to people in the highest tax bracket.

A person in the top federal tax bracket of 29 percent now saves $290 in federal taxes and $160 on average in provincial taxes for a total saving of $450 for every $1,000 contributed to an occupational plan or RRSP. A person in the lowest tax bracket of 17 percent saves $170 in federal taxes and $94 in provincial taxes for a total saving of $264 on the same contribution of $1,000.[24]

Under tax reform and at the urging of many social policy groups, the federal government converted all personal exemptions and most deductions to tax credits beginning with the 1988 tax year. Tax credits reduce the amount of taxes owed and therefore provide the same benefits regardless of a person's tax bracket.

Most of the conversions were done at a rate of 17 percent, the same rate as the lowest federal tax bracket. An exemption or deduction of $1,000 became a tax credit of $170.

Under a system that converted deductions to credits at the rate of 17 percent, an affluent person with $1,000 in contributions to an occupational plan or RRSP would save a total of $264 in federal and provincial taxes. A person with modest earnings and $1,000 in contributions would also save $264.

To date, the federal government steadfastly refuses to allow tax credits rather than deductions for contributions to occupational pension plans and RRSPs. Officials of the Finance Department say there are both philosophical and practical reasons for maintaining the status quo. Frankly, we do not find their reasons compelling. In this case and in the case of the overall limits on tax assistance, the main result of the Department's stand is to enhance the tax advantages of the rich.[25]

Recommendation #22. **The Income Tax Act should be amended to provide tax credits rather than tax deductions for contributions to occupational pension plans and registered retirement savings plans.**

Inflation Protection in Occupational Pension Plans

The National Council of Welfare considers full protection against increases in the cost of living an essential feature of any good retirement income plan.

Inflation is the constant enemy of retired people. Once they leave the paid labour force, they have to make do with whatever pension arrangements are already in place. Unlike people who are still working, they cannot go back and bargain with their employers for higher wages to keep abreast of the cost of living.

The federal Old Age Security pension, the Guaranteed Income Supplement, the Spouse's Allowance, and Canada and Quebec Pension Plan benefits all are fully indexed. Benefits are increased automatically in line with increases in the cost of living as measured by the Consumer Price Index.

Many occupational pension plans do not have either full or partial indexation, and pensioners soon find their occupational plan income eroded by inflation. It takes only ten years at a modest inflation rate of four percent a year to whittle down the purchasing power of a monthly pension cheque from $600 to $416.

The latest statistics show that 66.9 percent of the members in occupational plans in the public sector were in plans that provided full or partial indexation in 1986. Only seven percent of the members of plans in the private sector had similar protection.[26]

When people talk of indexation in occupational pension plans, they normally are referring to defined-benefit plans only.

Each defined-benefit plan has a formula for determining pension benefits upon retirement. Plans with indexation also have a second formula for increasing the initial amount in subsequent years as the cost of living rises.

Indexation is possible in money-purchase plans and RRSPs, but under far less desirable conditions. The reason is that money built up in these plans is normally used to buy an annuity upon retirement. Indexed annuities have been available in Canada for years, but few people choose to buy them because the initial monthly benefits are much lower than normal. Basically, the choice is to take level payments for life - $300 a month, just to take a hypothetical figure - or indexed payments that begin at $200 a month and grow to $400 after a number of years.

At the present time, Ontario is the only jurisdiction in Canada that has shown any interest in requiring defined-benefit pension plans to have at least partial indexation of benefits. Sadly, the proposals made by Ontario in a consultation draft published in March 1989 would provide very minimal protection for pensioners.[27]

There would be partial inflation protection only, and it would only cover earnings up to 60 percent of the average wage as measured by the Year's Maximum Pensionable Earnings or YMPE in the Canada Pension Plan. This partial inflation protection would be mandatory only for pension benefits related to future earnings, not on past earnings.

Table 8 on the next page illustrates the net impact of the proposed Ontario formula for indexing future pension benefits, assuming annual inflation rates of four percent and ten percent.

TABLE 8

ONTARIO PROPOSALS FOR PARTIAL INDEXATION OF FUTURE PENSION BENEFITS

Earnings	Effective Rate of Indexation When Inflation Is: 4 percent	10 percent
60 Percent of Average Wage	2.0 %	5.0 %
Average Wage	1.2	3.0
Twice Average Wage	0.6	1.5

The effective rates of indexation shown in the table would be in full force only after 35 or 40 years, because none of the indexation would be retroactive for previous earnings.

Even after 35 or 40 years, low-wage workers would have indexation of occupational pension income that would cover only half the increase in the cost of living. Average-wage workers would have indexation covering less than one-third of the increase in the cost of living. High-wage workers would have indexation of less than one-sixth of the increase in the cost of living.

The consultation draft does propose formulas for making indexation retroactive on a voluntary basis, but these formulas are only slightly less unattractive.

In our view, the proposals are so inadequate that they should be scrapped outright. Ontario is normally a leader in pension legislation, but other governments would be ill-advised to follow in Ontario's footsteps in this instance.

The National Council of Welfare would like to see the federal and provincial governments eventually require full indexation in all defined-benefit plans. The high cost of full indexation has always been the reason governments are reluctant to act. We understand their concerns, but at the same time we believe some way must be found to protect pensioners.

Many occupational pension plans in the public sector for government employees, teachers, nurses and others are already fully indexed to the Consumer Price Index. This shows that indexation is more than a theoretical possibility.

Workers who belong to plans with full indexation normally pay higher contributions than their colleagues in plans without indexation. If an additional contribution of one or two percent of earnings would fully protect a person's pension income from inflation, we believe it would be money well spent.

Our first suggestion is that governments require full indexation on all pension benefits related to future earnings in defined-benefit plans, beginning with earnings in 1990. Admittedly, that would delay the full impact of indexation for many years into the future. On the other hand, it would allow for a smooth transition to full indexation.

Secondly, we suggest that governments encourage, but not require plans to offer indexation of pension benefits earned in past years. Full indexation of benefits earned in the past may not be possible in all cases, but partial indexation would certainly be helpful to people who are nearing retirement age.

Finally, we would like to see all "deferred pensions" fully indexed. A deferred pension can arise when a member of an

occupational pension plan changes jobs. Pension credits that were earned prior to leaving stay in the plan and are used to pay monthly benefits when the person reaches retirement age.

If deferred pensions are not indexed between the time workers change jobs and the time they actually retire, chances are they will be of little value. Take the case of a worker who changes jobs in 1990 and retires in 2010. His or her deferred pension would be based on a 1990 salary rather than a 2010 salary, and benefits would reflect the value of the dollar in 1990 rather than the dollar of 2010. On both counts, the worker winds up a loser.

The easiest solution to this problem is to require the indexation of all deferred pensions. If the value of the deferred pension was $200 a month in 1990, for example, that $200 would be indexed to the cost of living until retirement. At inflation of four percent a year, it would grow to $438 a month in 2010.

Recommendation #23. The federal and provincial governments should require indexation of income from defined-benefit pension plans for benefits earned beginning in 1990. Governments should encourage indexation of benefits earned in past years.

Recommendation #24. All deferred pensions that become payable as a result of job changes in 1990 and subsequent years should be fully indexed to the cost of living.

More and Better Survivor Pensions

In the chapter on the Canada and Quebec Pension Plans, we made a number of recommendations concerning survivor pensions.

The need to improve survivor benefits in occupational pension plans is much more urgent.

The latest available figures collected by Statistics Canada show that most members of occupational pension plans are in plans that have no provisions at all for benefits of a continuing nature to surviving spouses.

When a worker dies <u>after</u> retiring, many plans provide for a life annuity with a guarantee period of five or ten years. With a five-year guarantee, if the plan member dies after one year, the spouse gets payments for four additional years only.

Federal law and some provincial laws now require pension plans to provide the option of a survivor pension equal to at least 60 percent of the full retirement pension. Survivor pensions are not mandatory, but they must be available to plan members and can be waived only with the consent of both spouses. When benefits are paid, they continue even if the surviving spouse remarries.[28]

The National Council of Welfare believes that similar standards should apply in all parts of the country.

When a worker dies <u>before</u> retiring, some plans refund pension contributions or make other kinds of lump-sum payments to the surviving spouses, but more than 600,000 people are in plans that provide no survivor benefits at all.

We believe some kind of survivor benefit is due, but we base our specific recommendations on whether or not pension contributions were "vested" at the time of death. Vesting means that the employee had a right under the law to receive the

benefit of his or her own contributions as well as contributions made by the employer.[29]

In cases where pension contributions are not vested, we believe that a surviving spouse should be entitled at least to a full refund of contributions plus the interest earned on those contributions. In cases where contributions are already vested, we would favor taking the lump-sum cash value of the pension earned at the time of death and transferring that amount to an annuity, locked-in RRSP or pension plan for the surviving spouse.

Recommendation #25. All governments should require occupational pension plans under their jurisdiction to provide for survivor benefits. Benefits should be available to survivors of plan members, whether the members die before or after retirement.

Credit-Splitting in Occupational Pension Plans

Earlier in this report, we made recommendations for the credit-splitting of pension entitlements under the Canada and Quebec Pension Plans in all cases of marriage breakdown. We also called for credit-splitting in enduring marriages when the younger spouse retires or reaches the normal age of retirement.

With occupational plans, we believe credit-splitting may have to be limited to marriage breakdown alone, and we believe there will have to be more flexibility in splitting than under the Canada and Quebec Pension Plans.

Credit-splitting under the Canada Pension Plan is relatively simple, because all members of the paid labour force outside

Quebec are members of the same plan. Credits can be shifted from one member to another with no problems.

Splitting is much more complicated in occupational plans, because husbands and wives are unlikely to belong to the same plan. The following scenarios show how we would apply credit-splitting to occupational plans.

In the first scenario, suppose the husband belongs to a plan at Company ABC and the wife has no plan at all. The logical course of action would be to have the husband keep half of his plan. The other half would be held in the wife's name in the plan or translated into its cash equivalent and put into an annuity or an RRSP for the wife that is locked-in until retirement.

Splitting becomes more complicated if the husband belongs to a plan at Company ABC, the wife belongs to a plan at Company XYZ, and one of the plans is considerably larger than the other. The fairest way to proceed in this case would be to split both of the plans.

Finally, a situation could arise where the spouses belong to different plans and have pension credits of approximately the same value. We would not insist on splitting at all in cases such as this. The only requirement would be that the value of the pension entitlements held by the two partners be more or less the same at the time of the marriage breakdown.

Manitoba is the only jurisdiction at the present time that requires credit-splitting in occupational plans on marriage breakdown. The law specifically says splitting cannot be overridden by a separation agreement or court order.

Some experts have questioned whether the federal government has the constitutional power to make credit-splitting a requirement in occupational plans, even in plans within federal jurisdiction. The argument is that family law falls under provincial jurisdiction and would prevail over contrary pension legislation passed by Ottawa.

Our suggestion is to have the federal government take the lead on credit-splitting. If the provinces agree, so much the better. If they object, the worst that could happen is that the courts would settle the matter of jurisdiction once and for all.

A second problem that arises in occupational pension plans and not in the Canada and Quebec Pension Plans is the valuation of pension entitlements.

Credit-splitting is easy under the Canada and Quebec Pension Plans because the two plans are based on career earnings and because those earnings are fully adjusted for inflation at the time the actual pension calculations are done.

Splitting in occupational plans is entirely different. Defined-benefit plans are normally based on a percentage of best earnings times the number of years of service. No adjustments for inflation are made in calculating pension credits prior to retirement.

Let us return to the example of a husband with a pension plan and a wife with no plan. Let us further assume that the couple splits up after 20 years of marriage, that the husband has 20 years of membership in his pension plan, and that his current salary is $30,000 a year.

There are two ways in which the wife's half of the pension plan can be valued.

One way, known as the termination method of valuation, is to calculate the value of the pension at the time of divorce. Say the plan provides a pension of two percent of best earnings for every year of service. That would mean a pension of $30,000 times two percent times 20 years - or a pension worth $12,000 a year. Under the termination method, the wife would be entitled to half of the total or $6,000 a year.

The second way of valuation, called the retirement method, reflects a more reasonable approach to splitting in our view. It recognizes that most pension plans are based on best earnings and most people have much higher salaries at the end of their careers.

The husband earning $30,000 at the time of divorce might be earning $60,000 when he reaches the age of retirement. Under the retirement method, the portion of his pension subject to splitting would be worth $60,000 times two percent times 20 years - or $24,000 a year. The wife's share of the pension would be $12,000 a year - twice as much as under the termination method.[30]

<u>Recomendation #26</u>. The federal and provincial governments should require credit-splitting in occupational pension plans upon marriage breakdown. Exemptions should be permitted only in cases where the spouses have earned pension credits during the course of their marriage that are approximately equal in value.

<u>Recommendation #27</u>. Governments should require the use of the retirement method rather than the termination method for determining the value of pension benefits at the time of credit-splitting.

THE BOTTOM LINES OF PENSION REFORM

The National Council of Welfare believes that the package of reforms we have proposed would give Canadians the financial security they deserve in their retirement years. The question to be answered in this chapter is whether the "bottom lines" are reasonable for the federal government and for workers and employers.

Under our proposals, the federal government would be looking at modest increases in spending in the short term, followed by modest reductions in spending. In fact, Ottawa could start saving money as a result of pension reform as early as 1999.

Modest additional outlays would be required initially to cover the cost of increases in the Guaranteed Income Supplement and Spouse's Allowance and a new program of benefits equivalent to the Spouse's Allowance for all people in need aged 60 through 64. As improvements in the Canada and Quebec Pension Plans came into full force, pensioners would rely much more on those plans for retirement income and much less on federal income security programs.

For workers and employers, the news is less cheery. Both would be facing continuing increases in contributions to the Canada and Quebec Pension Plans through the early decades of the next century to finance higher benefits and keep the plans on sound financial footings.

It is clear to us that an overhaul of the current system will be needed before long to keep contributions by workers with low or modest incomes from becoming unreasonably high.

The Bottom Line for the Federal Government

To assess the total additional cost of our package of reforms to the federal government, we estimated the cost of nine individual items year by year from 1990 to 2002. The detailed estimates are presented in Table 9 on the next page. "Plus" figures represent additional costs to the federal treasury, and "minus" figures represent savings.

We used the federal government's own estimates or statistics as the starting point for most of our calculations. In general, we took the figures for 1988 or 1989 and inflated them by four percent a year in anticipation of a modest degree of inflation over the next decade.

We made no estimates of the cost of changing the residence requirements for Old Age Security pensions or the savings that the federal government would realize by reducing the maximum tax-assisted pension from an occupational pension plan. Both these proposals would likely have a modest impact on federal revenues in the long term, but not until well into the next century.

Item No. 1 in Table 9 is our estimate of the cost of an increase of $100 a month in the Guaranteed Income Supplement and Spouse's Allowance for single people. As recommended, all benefits under the two programs would be calculated using a reduction rate of 63 percent rather than the current reduction rate of 50 percent.

The additional cost to the federal government in 1990 would be $847 million. That figure would rise year by year and would reach $1,356 million or nearly $1.4 billion by the year 2002.

TABLE 9

FEDERAL COSTS (+) AND SAVINGS (-) DUE TO PENSION REFORM (MILLIONS OF DOLLARS)

Item	1990	1991	1992	1993	1994	1995	1996	1997	1998	1999	2000	2001	2002
1. GIS-SPA Increase for Singles	847	881	916	953	991	1030	1071	1114	1159	1205	1253	1304	1356
2. GIS-SPA Increase for Couples	200	208	217	225	234	244	254	264	274	285	297	309	321
3. SPA Increase for Singles	51	53	55	57	59	62	64	67	69	72	75	78	81
4. Benefits for All in Need 60 Through 64	--	--	342	712	1111	1540	2002	2082	2166	2252	2342	2436	2533
5. GIS-SPA Offsets from Cofirentes Plus	--	--	-160	-354	-542	-766	-984	-1219	-1495	-1765	-2083	-2395	-2490
6. SPA Offsets, Early Retirement	--	--	-97	-219	-371	-554	-771	-855	-945	-1041	-1142	-1250	-1301
7. RRSP Savings and Offsets	--	-700	-728	-757	-787	-819	-852	-886	-921	-958	-996	-1036	-1078
8. Taxes on CPP-QPP Income	--	--	-482	-684	-857	-1018	-1208	-1439	-1710	-2014	-2350	-2728	-2910
9. Tax Credits for CPP-QPP Contributions	--	--	122	304	509	732	979	1234	1513	1835	2175	2536	2872
TOTALS	1098	442	185	237	347	451	555	362	110	-129	-429	-746	-616

As we explained in the first chapter of this report, raising the reduction rate to 63 percent cuts the cost of the increase. The figures for Item No. 1 would be substantially higher if the reduction rate was left unchanged at 50 percent.

Item No. 2 is the cost of an increase of $50 a month in the Guaranteed Income Supplement and Spouse's Allowance for married people - or $100 a month for each couple. At the same time the increase went into effect, the reduction rate would be raised to 60 percent from 50 percent.

The cost of increasing the supplement for married people is substantially lower than the cost of the increases for single people for two reasons. First of all, married people would get only half the increase of singles. Secondly, poverty is less severe and less widespread among married seniors than among singles.

Item No. 3 is the cost of increasing the Spouse's Allowance for all widows and widowers aged 60 through 64 by $77 a month beginning in 1990. That would make the maximum benefit the same as the amount from the Old Age Security pension and maximum Guaranteed Income Supplement for single people 65 and older. For married people, the maximum Spouse's Allowance is already the same as the Old Age Security pension and maximum Guaranteed Income Supplement combined.

Item No. 4 is the cost of providing benefits equivalent to the Spouse's Allowance to all people in need aged 60 through 64. Because of the high cost, we suggested phasing in benefits over five years beginning in 1992. All needy 64-year-olds would become eligible for benefits in 1992, all needy 63-year-olds in 1993 and so on.

We began with the federal government's estimate of providing benefits for 390,000 people at a net additional cost of $1.2 billion in 1988 dollars. The net cost figure includes some $300 million in federal savings on welfare. We then added the cost of raising the Spouse's Allowance for the new beneficiaries as we did for current beneficiaries in Item Nos. 1-3 above.

Item No. 5, offsets in the Guaranteed Income Supplement and Spouse's Allowance, is a part of our package of reform proposals that should be especially appealing to any government interested in saving money.

We would phase in higher Canada and Quebec Pension Plan benefits using the Cofirentes Plus formula over a period of ten years beginning in 1992. As people got higher retirement, survivor or disability pensions, they would rely less on the Guaranteed Income Supplement and Spouse's Allowance.

We began our calculations with the latest statistics on CPP and QPP income received by recipients of the Guaranteed Income Supplement and Spouse's Allowance. By the year 2001, when the Cofirentes Plus formula would be in full force, recipients of the Guaranteed Income Supplement and Spouse's Allowance would have about $4.2 billion more in CPP and QPP income. Federal savings that year on the Guaranteed Income Supplement and Spouse's Allowance would amount to about $2.4 billion.

Item No. 6 reflects savings to the federal government that would arise from allowing people to claim full Canada or Quebec Pension Plan benefits without penalty at age 60 at the same time that Ottawa started making benefits equivalent to the Spouse's Allowance available to all people in need aged 60 through 64.

We assumed that one-half of all the new recipients of the program would have CPP or QPP income equivalent to half the maximum possible retirement pension. That income would increase over the years as the Cofirentes Plus formula was phased in and defray much of the cost of the new program. Federal government savings could top $1.3 billion a year by the year 2002.

Item No. 7 is savings that the federal government would realize by keeping the limit on contributions to registered retirement savings plans at $7,500 a year rather than increasing it in stages to $15,500. The same item also includes savings that would arise from closing a number of loopholes in existing RRSP arrangements.

The Finance Department estimates that raising the RRSP contribution limits would cost the federal government between $300 million and $350 million in the 1991-1992 fiscal year. Closing the loopholes would save between $300 million and $350 million that same year. The Department says no cost estimates are available for subsequent years.[31]

The National Council of Welfare chose the higher figures in each case and added them together to get a total of $700 million in savings in 1991 - $350 million in savings by <u>not</u> proceeding with higher contribution limits and $350 million in savings by closing existing tax loopholes. We inflated the figure of $700 million by four percent for 1992 and subsequent years. In our opinion, the results are extremely conservative estimates of the savings possible.

Provincial governments would also realize considerable savings from these proposals because all of them except Quebec have joint income tax collection agreements with the federal

government. When the federal government saves money by changing a tax break, they automatically save money as well.

Item Nos. 8 and 9 are estimates of losses and gains in federal tax revenues resulting primarily from increases in contributions and increases in benefits in the Canada and Quebec Pension Plans due to the Cofirentes Plus formula. They are based on projections made by the Office of the Superintendent of Financial Institutions. Savings exceed losses in each of the years shown.

As in the case of RRSP tax breaks, provincial governments would also realize corresponding gains and losses in their own tax revenues as a result of the changes.

Item No. 8 reflects the extra income tax revenue resulting from higher CPP and QPP benefits. We took the additional benefits arising from our package of proposals and calculated additional taxes at an average federal tax rate of 18 percent. We chose 18 percent based on taxation statistics for pensioners who received CPP or QPP income.

Item No. 9 is the cost of the tax credit of 17 percent allowed by the federal government for contributions to the Canada and Quebec Pension Plans. We used estimates of the additional contributions required to finance our package of improvements and multiplied the results each year by 17 percent.

Looking at all nine items together, we estimate that the federal government faces modest increases in spending each year through 1998. After that, its net additional costs would begin falling as Canada and Quebec Pension Plan benefits started approaching their new maximums under Cofirentes Plus.

We predict savings for the last four years shown in the table, a trend that would presumably continue indefinitely into the future.

Increasing the incomes of seniors and saving money in the long run strike us as two good reasons for pension reform, but they are not the only reasons. Consider what could happen if the courts were to strike down the Spouse's Allowance program as unconstitutional as a result of the current court challenge under the Canadian Charter of Rights and Freedoms.

In theory, the government could abandon the program altogether or it could invoke the "notwithstanding" clause of the Constitution to continue the program in its present form, but both those options are highly unlikely. The most likely choice would be for the federal government to improve the program in the way we recommend in this report.

As Table 9 shows, providing benefits equivalent to the Spouse's Allowance for all people in need aged 60 through 64 is the second most expensive item in our package once the package was in full force in the year 2002.

If the federal government followed our advice on the Spouse's Allowance without making other major changes in pension policy, it would be facing a net additional cost of more than $2.5 billion a year by 2002. Alternatively, if it extended the Spouse's Allowance and also adopted the rest of our package, it could save itself $616 million that same year.

We believe this is a compelling argument for a "package" rather than a "piecemeal" approach to pension reform.

The Bottom Line for Workers and Employers

Workers and employers would be affected by our package of reform proposals because they would have to pay higher contributions to the Canada and Quebec Pension Plans in order to finance major improvements in CPP and QPP benefits.

Increasing benefits according to the Cofirentes Plus formula is clearly the most expensive of the improvements in the plans that we propose. Early retirement without penalty and improved survivor pensions and children's benefits would be less expensive.

In order to get a professional assessment of the financial implications of our proposals, we called on the Office of the Superintendent of Financial Institutions, the federal agency that oversees the Canada Pension Plan and banks and trust companies under federal jurisdiction.

The superintendent's office used its actuarial expertise and its computer model of the Canada Pension Plan to show how our proposed improvements would affect the plan financially for decades into the future. Using the economic and demographic assumptions in the plan's tenth actuarial report, the model projected the contribution rates for workers and employers that would be needed to keep the plan on a sound financial footing through the next century.[32]

The results of the analysis up to the year 2050 are summarized in Table 10 on the next page. The first column shows the combined contribution rates needed to keep the Canada Pension Plan solvent - even if there are no further improvements in benefits. A 25-year schedule of increases in contribution rates

was approved by federal and provincial Ministers of Finance and annexed to the Canada Pension Plan Act effective January 1, 1987. The schedule will be revised every five years based on the latest available actuarial report on the plan.

The second column of the table shows the contribution rates that would be required with all the improvements recommended in this report.

TABLE 10

CPP CONTRIBUTION RATES, 1992-2050, WORKERS AND EMPLOYERS COMBINED

Year	Existing System	National Council of Welfare Proposals
1992	4.75	5.39
1995	5.20	7.76
2000	5.95	11.11
2005	6.70	13.79
2010	7.45	16.06
2020	10.10	19.86
2030	11.65	21.92
2040	11.91	22.17
2050	11.68	21.79

The combined contribution rate means that half of the total would be paid by workers and the other half by employers. Self-employed people would pay both shares. For example, the rate of 21.79 in the bottom right corner of the table means contributions in the year 2050 would have to be 21.79 percent of

earnings up to the average wage under our proposals - roughly 11 percent from workers and 11 percent from employers.

Even from a cursory glance at the table, it is clear that a combined contribution rate in the order of 22 percent is too high. It would place a particularly heavy burden on workers with earnings at or below the average wage.

Fortunately, there is a way of changing the system of contributions that would make our proposals realistic, a way sometimes known as the "total employment earnings" approach.

CPP and QPP contribution rates now are based on a relatively narrow band of earnings called "contributory earnings." Workers pay contributions only on earnings above the Year's Basic Exemption and below the Year's Maximum Pensionable Earnings. In 1989, the exemption was $2,700 and the YMPE was $27,700, so the maximum amount of earnings subject to contributions was $25,000.

The total earnings approach, as the name says, would base CPP and QPP contributions on all wages and salaries, not just contributory earnings. By broadening the base of the two plans, the contribution rate could be lowered considerably, to the particular benefit of low-wage workers.

A study conducted under the auspices of the Canadian section of the Society of Actuaries' Committee on Social Insurance shows that contribution rates based on total earnings would be roughly 68 percent of the rates that are based on contributory earnings.[33]

Table 11 on the next page compares contribution rates for improved Canada and Quebec Pension Plans using these two

different approaches. The first column of figures is the same as in the previous table, projected contribution rates to finance the improvements we recommend based on the current system of contributory earnings. The second column shows comparable rates under a total employment earnings approach.

TABLE 11

CANADA AND QUEBEC PENSION PLAN CONTRIBUTION RATES USING DIFFERENT EARNINGS BASES, 1992-2050

Year	Contributory Earnings	Total Employment Earnings
1992	5.39	3.67
1995	7.76	5.28
2000	11.11	7.55
2005	13.79	9.38
2010	16.06	10.92
2020	19.86	13.50
2030	21.92	14.91
2040	22.17	15.08
2050	21.79	14.82

The change in the base allows sizable reductions in all the rates shown. As in the previous table, the rate of 14.82 in the bottom right corner of Table 11 refers to a combined rate - 7.41 percent from workers and 7.41 percent from employers.

A combined rate of 14.82 percent in the year 2050 may appear too high at first blush, but it is lower than the contribution rate already used for Social Security in the United States. As of 1989,

the U.S. combined contribution rate for workers and employers was 15.02 percent of earnings up to a maximum of $48,000.[34]

To get a better idea of what higher contribution rates would mean to Canadian workers, we calculated the contributions that would have been required of workers in different income groups if rates had been at peak levels in 1989.

The first column of Table 12 shows actual contributions under the current system in 1989, when employees paid 2.1 percent of contributory earnings. The second column shows peak contributions of six percent of contributory earnings that would eventually be required under the current system according to projections of the federal and provincial governments. The third column shows the Council's proposals for major improvements in the Canada and Quebec Pension Plans and an estimated peak contribution rate of 7.5 percent of total earnings. Each of the dollar figures represents net contributions - actual contributions minus the federal tax credit of 17 percent.

TABLE 12

COMPARING ALTERNATIVE CONTRIBUTION ARRANGEMENTS BASED ON 1989 EARNINGS LEVELS

Earnings	Current System at 1989 Rate	Current System at Peak Rate	Council Proposal at Peak Rate
One-Half Average Wage	$ 194	$ 555	$ 694
Average Wage	$ 436	$ 1,245	$ 1,556
Twice Average Wage	$ 436	$ 1,245	$ 3,281
Three Times Average Wage	$ 436	$ 1,245	$ 5,005

As the table shows, sizable increases in contributions are inevitable regardless of what governments decide to do in the future. Even with no improvements at all in benefits - the scenario reflected in the second column - workers will have to pay much higher contributions in the future.

For workers at the average wage or less, there is relatively little difference in contributions between the second and third columns, but a huge difference in benefits. Workers with career earnings at half the average wage will see their CPP or QPP retirement pensions stay the same under the existing system, while they would see them doubled under the Cofirentes Plus approach favored by the Council. Workers at the average wage would have their pensions increased by 50 percent under Cofirentes Plus.

For high-wage workers, the contributions required under the Council's approach would be substantially higher than the contributions required under the government approach. However, high-wage workers would also get an increase of 50 percent in their CPP or QPP pensions, and the benefits they received would not be out of line with the contributions shown in Table 12.

For example, under our proposal, a worker earning three times the average wage would pay the equivalent of $5,005 a year in 1989 dollars at a contribution rate of 7.5 percent for a total outlay of $200,200 over a career of 40 years. That same worker could collect a full CPP or QPP pension upon retirement worth $10,202 a year in 1989 dollars. If the worker retired at age 60 and lived to age 80, he or she would receive total benefits of $204,040.

For all the reasons cited above, the National Council of Welfare would like to see serious consideration given to basing contributions to the Canada and Quebec Pension Plans on total employment earnings rather than on the much narrower band of contributory earnings.

However, because the change would mean a radical departure in the financing of the plans and because it has not been widely discussed by the general public, we believe the proper way to proceed is through a serious study of the proposal by experts inside and outside government and a wide-ranging public debate before any changes are actually made.

It goes without saying that the financial arrangements for Social Security in the United States and arrangements in other countries would be a worthwhile area of attention in any studies commissioned by governments or outside groups.

One other concern about higher contribution rates that needs to be addressed by governments relates to the impact of higher rates on self-employed people. Since the beginning of the Canada and Quebec Pension Plans, self-employed workers have paid twice the contributions required of employees. Small family businesses already find this a problem, and the situation would obviously be much worse after major increases in the contribution rate.

Contributors to the plans now are able to claim a federal tax credit of 17 percent of their contributions to help offset the cost of contributions. In 1989, the maximum contribution by an individual worker was $525 and the maximum tax credit was $89.25. The maximum contribution by a self-employed person was $1,050 and the maximum tax credit was $178.50.

Perhaps the easiest way of providing relief from the burden facing self-employed people would be to provide them with an additional credit of 17 percent. In 1989, for example, they would have received the normal tax credit of $178.50 plus an extra credit of $89.25 for a total of $267.75.

Recommendation #28. The federal and provincial governments should commission a study of shifting the basis of financing the Canada and Quebec Pension Plans from contributory earnings to total employment earnings. Following publication of the study, governments should encourage public debate on the alternatives before taking any firm decisions.

Recommendation #29. The federal government should consider increasing the tax credit for self-employed people who contribute to the Canada and Quebec Pension Plans before major increases in the contribution rate come into effect.

CONCLUSION

What our own estimates and the estimates of the Office of the Superintendent of Financial Institutions show when all is said and done is that there are indeed reasonable bottom lines for pension reform.

One can quarrel with some of our individual recommendations for changes in federal income security programs, improvements in the Canada and Quebec Pension Plans, or fairer tax arrangements linked to occupational pension plans and RRSPs. Yet even our critics should be willing to concede that the package as a whole is comprehensive, coherent and fiscally responsible.

More than anything else, this report shows that sweeping improvements in our current retirement income system are well within the realm of possibility.

The next step lies with governments. We hope that the federal, provincial and territorial governments will reopen talks on pension reform at an early date. Co-operation is essential when it comes to the Canada Pension Plan, because changes require the approval of the federal government and two-thirds of the provinces with two-thirds of the population.

The federal government could act unilaterally on many of our other recommendations, but it would be far better to have the provinces and territories as partners in the entire pension reform process.

Given the demographic realities facing Canada and the relatively long time it takes to bring most changes in pension

policy into full force, we believe governments should act as soon as possible.

If governments act quickly, we could enter the 21st century with a retirement income system that is sensible and fair. If they delay, we could find ourselves totally unprepared for the "seniors boom" that everyone knows is coming in the early decades of the next century.

Recommendation #30. The National Council of Welfare urges the federal government to renew its commitment to pension reform, to reopen discussions on pension reform with the provinces and territories at an early date, and to support our recommendations for sweeping improvements in Canada's retirement income system for the betterment of seniors.

SUMMARY OF RECOMMENDATIONS

The National Council of Welfare urges the federal government to renew its commitment to pension reform, to reopen discussions on pension reform with the provinces and territories at an early date, and to support our recommendations for sweeping improvements in Canada's retirement income system for the betterment of seniors.

Income Security for Today's Seniors

1. The federal government should increase the maximum Guaranteed Income Supplement for single people by $100 a month and raise the reduction rate to 63 percent at the same time. Comparable changes should be made in the Spouse's Allowance for single people.

2. The federal government should raise the maximum Guaranteed Income Supplement for married seniors by $100 a month per couple - $50 a month for each spouse - and increase the reduction rate to 60 percent. Comparable changes should be made in the Spouse's Allowance for married people.

3. Provinces and territories which offer income supplements to poor pensioners should make whatever changes in their programs are necessary so that no one loses benefits because of higher reduction rates in the federal programs.

4. Provinces and territories with income supplements should give special consideration to the needs of single seniors.

5. The federal government should expand the Spouse's Allowance program to provide equivalent benefits to all poor Canadians aged 60 through 64.

6. Single beneficiaries of the Spouse's Allowance 60 through 64 should get benefits identical to the combined Old Age Security Pension and Guaranteed Income Supplement for singles 65 and older.

7. The federal government should abandon plans for clawing back Old Age Security pensions. The old age pension should remain a universal social program that provides meaningful after-tax benefits to all seniors 65 and older.

8. The federal government should amend the residence requirements for the Old Age Security pension to provide full benefits for people 65 and older who have resided in Canada at least ten years. International social security agreements can continue to provide for pro-rata old age pensions for immigrant seniors who lived in Canada less than ten years.

9. Once new residence requirements for the Old Age Security are in place, the "super" Guaranteed Income Supplement should be dropped. Immigrants in need should be eligible for the same Guaranteed Income Supplement benefits as other residents of Canada and under the same conditions.

Improving the Canada and Quebec Pension Plans

10. The federal and provincial governments should improve benefits from the Canada and Quebec Pension Plans using the Cofirentes Plus formula. The higher benefits would be financed by higher contributions from workers and employers.

11. The federal and provincial governments should drop the "penalties" for early retirement that now exist in the Canada and Quebec Pension Plans and allow retirement without penalty at age 60.

12. The federal and provincial governments should take steps to ensure that credit-splitting under the Canada and Quebec Pension Plans is automatic, mandatory and as immediate as possible following marriage breakdown.

13. In the case of lasting marriages, credit-splitting in the two plans should be mandatory, automatic and immediate upon the retirement of the younger spouse.

14. The federal and provincial governments should agree to calculate all Canada and Quebec Pension Plan survivor pensions paid to people 60 and older <u>after</u> credit-splitting rather than before.

15. The federal government should proceed with the transitional improvements proposed in its 1987 consultation paper on survivor pensions under the Canada Pension Plan. These improvements should be made permanent, and they should apply to survivors under age 60 rather than survivors under 65.

16. The federal government should <u>not</u> proceed with the entirely new system of survivor pensions proposed in the consultation paper.

17. Children's and orphan's benefits under the Canada Pension Plan should be doubled for children under seven and increased by 50 percent for children seven through 17. Benefits for children 18 and older should remain at their current levels.

18. Survivor pensions in the Canada and Quebec Pension Plans should be prorated among former and current spouses based on the length of each relationship.

19. The Canada and Quebec Pension Plans should provide benefits similar to the child-rearing drop-out for adults who forego opportunities in the paid labour force to care for disabled or infirm relatives.

Reforming Occupational Pension Plans and RRSPs

20. The Income Tax Act should be amended to restrict the tax breaks associated with occupational pension plans and RRSPs. Contributions to defined-benefit plans should be limited to earnings of no more than one and one-half times the average wage. Contributions to money-purchase pension plans and RRSPs should be limited to $7,500 a year in 1990, and increases in future years should not exceed increases in the average wage.

21. While the National Council of Welfare opposes the federal government's plans to increase the limits on tax-assisted retirement savings, it applauds companion measures to close loopholes in the current system.

22. The Income Tax Act should be amended to provide tax credits rather than tax deductions for contributions to occupational pension plans and registered retirement savings plans.

23. The federal and provincial governments should require indexation of income from defined-benefit pension plans for benefits earned beginning in 1990. Governments should encourage indexation of benefits earned in past years.

24. All deferred pensions that become payable as a result of job changes in 1990 and subsequent years should be fully indexed to the cost of living.

25. All governments should require occupational pension plans under their jurisdiction to provide for survivor benefits. Benefits should be available for survivors of plan members, whether the members die before or after retirement.

26. The federal and provincial governments should require credit-splitting in occupational pension plans upon marriage breakdown. Exemptions from this rule should be permitted only in cases where each spouse has pension credits that are approximately equal in value.

27. Governments should require the use of the retirement method rather than the termination method for determining the value of pension benefits at the time of credit-splitting.

The Bottom Lines of Pension Reform

28. The federal and provincial governments should commission a study of shifting the basis of financing the Canada and Quebec Pension Plans from contributory earnings to total employment earnings. Following publication of the study, governments should encourage public debate on the alternatives before taking any firm decisions.

29. The federal government should consider increasing the tax credit for self-employed people who contribute to the Canada and Quebec Pension Plans before major increases in the contribution rate come into effect.

APPENDIX

MONTHLY CANADA PENSION PLAN BENEFITS
CURRENT SYSTEM VS. COUNCIL PROPOSALS, 1989 RATES

RETIREMENT PENSIONS	Current System	Cofirentes Plus
At Average Wage	$ 556.25	$ 834.38
At 1/2 Average Wage	278.13	556.25

RETIREMENT AT AGE 60	Current System	Council Proposal	Council With Cofirentes Plus
At Average Wage	$ 389.38	$ 556.25	$ 834.38
At 1/2 Average Wage	194.69	278.13	556.25

SURVIVOR PENSIONS	Current System	Council Proposal	Council With Cofirentes Plus
Post-Retirement			
At Average Wage	$ 333.75	$ 445.00	$ 667.50
At 1/2 Average Wage	166.88	222.51	445.00
Pre-Retirement			
At Average Wage	$ 311.61	$ 414.63	$ 518.93
At 1/2 Average Wage	207.32	310.34	414.63

BENEFITS FOR CHILDREN	Current System	Council Proposal
Under Age 7	$ 103.02	$ 206.04
Ages 7 to 17	103.02	154.53
Ages 18 to 25	103.02	103.02

DISABILITY PENSIONS	Current System	Cofirentes Plus
At Average Wage	$ 681.23	$ 889.83
At 1/2 Average Wage	472.64	681.23

FOOTNOTES

1. The National Council of Welfare uses the term poverty lines to refer to the low-income cut-offs calculated by Statistics Canada. For more information, see the Council's 1989 Poverty Lines (Ottawa: April 1989).

   According to the 1981 census, 40 percent of all people 65 and older lived in cities of 500,000 or more, 11 percent in cities of 100,000 to 499,999, nine percent in cities of 30,000 to 99,999, 18 percent in urban areas of less than 30,000 and 22 percent in rural areas. Comparable 1986 figures have not been published. See Statistics Canada, 1981 Census of Canada, Age, Sex and Marital Status (Ottawa: Minister of Supply and Services Canada, 1982).

2. The Guaranteed Income Supplement and Spouse's Allowance actually have different reduction rates, but the programs operate in essentially the same way. Technically speaking, our proposal is for a reduction rate of 63 percent in the GIS for singles and a comparable rate in the Spouse's Allowance.

3. Poverty is also more widespread among single seniors. In 1987, 14.1 percent of the elderly living in families were poor, but 47.9 percent of unattached elderly people were poor.

4. Detailed information about the way provincial and territorial supplements are calculated is available in the January 1988 version of Health and Welfare Canada's Inventory of Income Security Programs in Canada (Ottawa: Minister of Supply and Services Canada, 1989).

5. Nova Scotia, Ontario, Alberta, the Yukon and the Northwest Territories each pay couples twice the supplements paid to singles. For a list of benefits, see the National Council of Welfare, A Pension Primer (Ottawa: September 1989).

6. Separate test cases that originated in Alberta, Ontario and Nova Scotia were subsequently combined into one case.

7. Federal officials estimate an increase of between 360,000 and 420,000 recipients at a net cost of between $1.1 billion and $1.3 billion in 1988. We used the midpoints, 390,000 people at a net cost of $1.2 billion.

The net cost figure represents a gross cost of $1.5 billion minus $300 million in federal savings on welfare as some recipients move from the welfare rolls to this new program.

8. One of the main reasons for the international agreements is to ensure that foreign governments pay a fair share of pension benefits earned by residents who subsequently immigrated to Canada. Most of these foreign benefits involved contributory pension programs akin to the Canada and Quebec Pension Plans.

   To facilitate negotiations, Canada promised to give pro-rata Old Age Security pensions to immigrants with less than ten years of residence.

9. As of September 1989, partial Old Age Security pensions were being paid to only 58,823 of the more than 2.9 million beneficiaries of the program.

10. Information on the cut-off points for the super GIS was taken from the table of rates used by federal officials in the last quarter of 1989.

11. See Statistics Canada, Pension Plans in Canada, 1986 (Ottawa: Minister of Supply and Services Canada, 1988), and the National Council of Welfare, A Pension Primer.

12. Ontario Ministry of Financial Institutions, Building on Reform: Choices for Tomorrow's Pensions (Toronto: March 1989).

13. Comité d'étude sur le financement de Régime de rentes du Québec et sur les régimes supplémentaire de rentes, La Sécurité financière des personnes âgées au Québec (Quebec, 1977).

14. The calculations in both Table 4 and Table 5 were done using the current GIS reduction rate of 50 percent. GIS benefits would be lower with reduction rates of 60 or 63 percent.

15. Although not all provinces recognize common-law unions under their family law, they accept them for the purpose of CPP and QPP benefits.

16. The figure of half a million does not include divorces in Quebec that would qualify for splitting under the Quebec Pension Plan, nor does it include break-ups of common-law unions.

17. Since 1987, the Canada Pension Plan has had an option known as "assignment of retirement pensions" that is easily confused with credit-splitting on retirement. Assignment allows couples where both spouses have retired to share the CPP retirement benefits earned during their lives together. In the case of a couple where one spouse worked in the paid labour force and the other was a homemaker, it allows both spouses to receive CPP pension cheques in their own names.

    Unlike credit-splitting, assignment is a temporary measure. It ends when one of the spouses dies or a year after the couple separates. We would hope that assignment of retirement pensions is no longer allowed once our recommendation for credit-splitting upon retirement comes into force.

18. The Quebec government has been a pioneer in many types of social programs for seniors and children other than those that fall within the Quebec Pension Plan. One reason QPP benefits for children are relatively low, for example, is that the province has numerous other benefits for children and their parents outside of the QPP.

19. Government of Canada, <u>Survivor Benefits under the Canada Pension Plan</u> (Ottawa: Minister of Supply and Services Canada, 1987).

20. Information about the special pension problems facing women and a comparison of the distribution of CPP pensions among men and women can be found in <u>A Pension Primer</u>.

21. For detailed information about occupational pension plans, see <u>A Pension Primer</u>.

22. See, for example, <u>Saving for Retirement: A Guide to the Tax Legislation and Regulations</u> issued by the Minister of Finance in December 1989.

23. In 1987, 85.7 percent of the 11.2 million taxpayers classified as "employees" had incomes under $40,000. For further details, see Revenue Canada Taxation, <u>Taxation Statistics, 1989 Edition</u> (Ottawa: Minister of Supply and Services Canada, 1989).

24. Provincial and territorial tax rates vary considerably, but on average they are 55 percent of the basic federal tax.

25. The National Council of Welfare believes that well-to-do taxpayers are not paying their fair share of taxes at the present time. For an overview of the impact of tax reform and other tax measures introduced in recent years, see the National Council of Welfare, Social Spending and the Next Budget (Ottawa: April 1989).

26. See Pension Plans in Canada, 1986, and A Pension Primer.

27. Details of the formulas can be found in Building on Reform: Choices for Tomorrow's Pensions.

28. As we said in A Pension Primer, providing the option of survivor benefits is not the same as mandatory survivor benefits. For example, federal pension legislation allows couples to waive survivor pensions if both spouses agree in writing. That might be a sensible option if both spouses have good retirement pensions to start with.

29. One of the aims of the last round of reforms affecting occupational pension plans was to provide for the early vesting and locking-in of pension contributions. The idea was to try to ensure that most contributions wind up actually being used to pay pension benefits. With a refund of contributions, there is always the temptation to spend the money right away.

30. Valuation under the retirement method is considerably more complicated than the example suggests. We would hope that pension experts, actuaries, social policy groups and others would be involved when governments draw up detailed guidelines for valuation.

31. Incomplete data is a long-standing problem with many of the Finance Department's publications. The National Council of Welfare believes the Department should publish an annual list of all tax expenditures, and that detailed tax expenditures covering a minimum of five years should be published with each budget speech to show the likely impact of each policy change.

32. For details of the economic and demographic assumptions, see the Department of Insurance Canada, Canada Pension Plan Statutory Actuarial Report No. 10 as at December 31, 1985.

33. Study entitled Projected Cost of Canadian Social Security Programs (Ottawa, 1989).

34. Social Security Handbook 1988 (Washington, D.C.: U.S. Department of Health and Human Services, 1988).

GLOSSARY

Annuity - A financial contract that pays an individual regular, predetermined amounts of money, usually on a monthly basis. Many people use the money from their registered retirement savings plans or money-purchase pension plans to buy annuities.

Canada Pension Plan - A plan set up by the federal and provincial governments and financed by contributions from workers and employers. The plan covers virtually all members of the paid labour force outside Quebec, which has a similar plan called the Quebec Pension Plan.

Child-Rearing Drop-Out - Provision in the Canada and Quebec Pension Plans that allows parents to disregard, for pension purposes, years of low earnings or no earnings when their children are under the age of seven. Because of the drop-out, parents do not lose future pension benefits if they stay at home while their children are young.

Clawback - The term commonly used to describe the federal government's 1989 budget proposals to recover Old Age Security and Family Allowance benefits from well-to-do recipients.

Cofirentes Plus - The acronym for an advisory group to the Quebec government that produced a report on pension reform in 1977. In this report, the Cofirentes Plus approach refers to the group's proposals for increasing benefits under the Canada and Quebec Pension Plans.

Credit - An entitlement to a pension benefit that is payable sometime in the future.

Credit-Splitting - Dividing pension credits earned during the course of a marriage or recognized common-law relationship. The term is normally used to mean that the two spouses get equal entitlements to future pension benefits.

Defined-Benefit Plan - An occupational pension plan that provides members with benefits directly related to their salaries and years of service. One common formula provides annual pension income equal to two percent of best earnings times the number of years of service.

<u>General Drop-Out</u> - Provision in the Canada and Quebec Pension Plans that allows members to exclude up to seven years of low earnings or no earnings for pension purposes. Parents can qualify for the child-rearing drop-out in addition to the general drop-out.

<u>Guaranteed Income Supplement</u> - A federal income security program for low-income seniors. Maximum benefits go to those with no other income aside from the Old Age Security pension.

<u>Indexation</u> - A technique for regular, automatic increases in benefits to offset the effects of inflation. The measure of inflation used most often is the Consumer Price Index of Statistics Canada.

<u>Money-Purchase Plan</u> - An occupational pension plan that lacks the specific guarantees of retirement income that are found in defined-benefit plans. When members of money-purchase plans retire, whatever money has been built up over the years in their names is used to buy them annuities.

<u>Occupational Pension Plan</u> - A pension plan sponsored by an employer, labour union or professional organization. Occupational plans are sometimes called private pension plans, company pension plans, registered pension plans or employer-sponsored pension plans.

<u>Old Age Security</u> - The basic federal income security program for seniors 65 and older. Prior to the clawback proposals of 1989, the old age pension was a universal social program that provided benefits to seniors regardless of their incomes.

<u>Quebec Pension Plan</u> - A sister plan to the Canada Pension Plan for residents of Quebec. More often than not, the features of the two plans are identical.

<u>Registered Retirement Savings Plan</u> - An individual savings plan recognized by the Income Tax Act. RRSP contributions within prescribed limits are deductible from taxable income and reduce the amount of income tax that people have to pay. When they retire, the money in their RRSPs can be used to buy annuities.

<u>Spouse's Allowance</u> - A federal income security program for select groups of low-income people aged 60 through 64. The program covers widows and widowers as well as people who are married to recipients of the Guaranteed Income Supplement.

<u>Survivor Benefits</u> - Payments made to the spouse of a deceased member of a pension plan. Both the Canada and Quebec Pension Plans and some occupational plans offer survivor benefits.

<u>Tax Assistance</u> - Federal, provincial or territorial government incentives to taxpayers, usually in the form of tax deductions or tax credits. Contributions to pension plans and RRSPs are among the items that qualify for tax assistance.

<u>Year's Maximum Pensionable Earnings</u> - An approximation of the average industrial wage that is used in the Canada and Quebec Pension Plans. Workers and employers pay contributions to the plans on earnings up to the YMPE, and most benefits from the plans are based on career earnings up to the YMPE.

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NATIONAL COUNCIL OF WELFARE

The National Council of Welfare was established by the Government Organization Act, 1969 as a citizens' advisory body to the Minister of National Health and Welfare. Its mandate is to advise the Minister on matters pertaining to welfare.

The Council consists of 21 members, drawn from across Canada and appointed by the Governor-in-Council. All are private citizens and serve in their personal capacities rather than as representatives of organizations or agencies. The membership of the Council has included past and present welfare recipients, public housing tenants and other low-income citizens, as well as lawyers, professors, social workers and others involved in voluntary service associations, private welfare agencies, and social work education.

Reports by the National Council of Welfare deal with a wide range of issues on poverty and social policy in Canada, including: income security programs, medicare, poverty lines and poverty statistics, the retirement income system, the aged, tax reform, the working poor, children in poverty, community economic development, women and poverty, employment policy, single-parent families, social services, nutrition, community organizing, child welfare, poor people's groups, legal aid/legal services, low-income consumers, poverty coverage in the press and welfare reform.

On peut se procurer des exemplaires en français de toutes les publications du Conseil national du bien-être social, en s'adressant au Conseil national du bien-être social, Immeuble Brooke Claxton OTTAWA K1A 0K9